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IN THE
Supreme Court of the United States
October Term, 1992

U.E. ENTERPRISES, INC.; FLUSHING STAR, INC.; CHAN'S VIDEO & TRADING, INC.; GONG PICTURES, INC.; DANG'S VIDEO, INC.; PO YUEN,

Petitioners,

v.

NEW YORK CHINESE TV PROGRAMS, INC.,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Court of Appeals for the Second Circuit exceeded the Judicial power, and invaded the prerogative of the Executive, in ruling that Taiwan is a "nation" -- contrary to the President's declaration in the Joint Communique of December 15, 1978 (reaffirmed repeatedly, and most recently on December 19, 1991), announcing official United States foreign policy that "all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is part of China."

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OPINIONS BELOW

The decision of the United States Court of Appeals for the Second Circuit, affirming the district court's finding that petitioners are liable for copyright infringement, is reported at 954 F.d 847, and is reprinted as Appendix A, at page A1. (References to the appendices bound with this Petition are styled "A___"). The opinion and order of the United States District Court for the Southern District of New York finding liability, from which appeal was taken, is reported at Copy. L. Rep. (CCH) ¶26,398, and is reprinted as Appendix B, at page A14. The opinion and order of the District Court setting damages is reported at Copy. L. Rep. (CCH) ¶26,778, and is reprinted as Appendix C, at page A47.

JURISDICTION

The decision of the Court of Appeals was entered on January 24, 1992. A timely petition for rehearing and suggestion for rehearing *en banc* was denied on March 23, 1992. *See* Appendix D, at page A79. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY AND CONSTITUTIONAL PROVISIONS INVOLVED

Art. II, § 2, cl. 2 of the U.S. Constitution provides in relevant part that:

> [The President] shall have Power, by and with the Advice and Consent of the Senate, to make Treaties, provided two thirds of the Senators present concur . . . .

Art. II, § 3 of the U.S. Constitution provides in relevant part that:

> [The President] shall receive Ambassadors and other public Ministers . . . .

Section 104(b)(1) of the Copyright Act of 1978, 17 U.S.C. § 104(b)(1), states:

Section 104. Subject matter of copyright: National origin.

(b) Published Works. -- The works specified by sections 102 and 103, when published, are subject to protection under this title if -- (1) on the date of first publication, one or more of the authors is a national or domiciliary of the United States, or is national, domiciliary, or sovereign authority of a foreign nation that is a party to a copyright treaty to which the United States is also a party, or is a stateless person, whenever that person may be domiciled.

STATEMENT OF THE CASE

The decision of the Court of Appeals below, declaring the island of Taiwan a "nation" despite consistent declarations to the contrary by the President of the United States, is a fundamental violation of the separation of powers because it strikes at the core of the Executive power over foreign affairs. The decision ignores both the Constitution and this Court's careful guarding of Executive prerogative and cannot be allowed to stand.

The relevant facts are uncontested and were stipulated below. (A25). Petitioner U.E. Enterprises, Inc. ("U.E."), a New York corporation, is in the business of distributing, in the Northeast United States, videotapes of television programs aired in Hong Kong. Petitioner Po W. Yuen is the chief executive officer of U.E; the other petitioners are affiliates or customers of U.E. (collectively, "U.E."). From 1986 to 1988, U.E. sold and rented videotapes of various television "soap opera" programs originally aired in Taiwan. (A16, A18).

On June 16, 1988, respondent New York Chinese TV Programs, Inc., brought suit against U.E. in the United States District Court for the Southern District of New York, claiming that it held a valid copyright interest in the television programs being distributed by U.E., and seeking injunctive and monetary relief. Respondent alleged, in relevant part, that it was an exclusive sub-licensee of the three Taiwanese television stations that had originally aired the programs in Taiwan, and that copyright protection therefore existed under Section 104(b)(1) of

the Copyright Act of 1978, which makes an original work eligible for copyright protection if

> on the date of first publication, one or more of the authors is a national or domiciliary of the United States, or is a national, domiciliary, or sovereign authority of a foreign nation that is a party to a copyright treaty to which the United States is also a party.

U.E. conceded that the "authors" of the programs -- the Taiwanese television stations that produced them -- are "domiciliaries" of Taiwan. U.E. based its defense, and its claim that all its activities were entirely legal and indeed protected by the First Amendment, on the ground that the island of Taiwan is not a "foreign nation that is a party to a copyright treaty to which the United States is also a party."

As the decision of the Second Circuit below recognized in confronting U.E.'s claim (A9-A11), the plain language of Section 104(b)(1) specifies that copyright protection cannot be found by a court without a threshhold finding by the court that Taiwan is a "nation." Without such a finding, the inquiry ends; it becomes clear that U.E.'s activities were constitutionally protected; and the judgment below becomes unsustainable.

Yet the district court never took on this central task. Its opinion did analyze various constitutional issues raised by petitioners bearing on the status of the 1946 Treaty of Friendship, Commerce, and Navigation ("FCN Treaty"), 63 Stat. 1299 (1946), negotiated between the United States and the government of the Republic of China before its leaders fled to Taiwan upon losing the Chinese civil war (A5-A6). Specifically, the district court considered whether the FCN Treaty is today in force as a "treaty" within the meaning of Section 104(b)(1) of the Copyright Act. (A30-A36). But ultimately the district court did not even definitively resolve these issues. Instead, it held that "the constitutional issues defendants seek to raise may be properly avoided" by regarding the Taiwan Relations Act ("TRA"), 22 U.S.C. §§ 3301, *et seq.*, as having impliedly accomplished a *de facto* amendment of the Copyright Act so as to read out of the Act, for purposes of Taiwan, the necessity to

find either "nationhood" or a "treaty" -- thus viewing the TRA "as a domestic law extending to Taiwan the provisions of the FCN Treaty pertaining to copyright protection despite derecognition and the cessation of formal diplomatic relations." (A37).

On appeal in the Second Circuit, the United States as *amicus* urged the court of appeals to adopt the "*de facto* Copyright Act amendment" theory and avoid the various constitutional issues raised by petitioners. *See* Brief for the United States as *Amicus Curiae*, filed October 18, 1991, at 8-16. The Second Circuit ignored this suggestion, perhaps because the suggestion presents its own constitutional concerns about how far Congress can go in announcing a general intent to amend statutes toward a given ends, but then essentially delegating to the Judiciary the responsibility of working out the details and language. Regardless of why, in the core of its opinion the Second Circuit usurped a fundamental Executive prerogative by declaring that Taiwan is a "nation." (A11-A12).

Rather than inquiring whether the President had addressed the question of Taiwan's status as a "nation" in the exercise of his powers over foreign affairs, the Second Circuit treated the point as an objective issue of fact and performed its own independent analysis. The Second Circuit applied a summary of "four essential elements of statehood under international law,"[1] which it found were met: "(1) a defined territory; (2) a permanent population; (3) a government; (4) the ability to engage in relations with other nations." (A11).

In conducting its factual analysis, the Second Circuit assumed (incorrectly) that prior to the United States' derecognition of the Republic of China in 1979 (A6-A7), the island of Taiwan was clearly a "nation" -- a "nation" controlled by members of the Nationalist government that had ruled on mainland China prior to losing to the Communists in the Chinese civil war. The

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[1] Hungdah Chiu, *Certain Legal Aspects of Recognizing the People's Republic of China*, 11 CASE W.RES.J.INT'L L. 389, 395-96 (1979).

Second Circuit decided that the "nation" requirement of the Copyright Act turns on whether "the United States' derecognition of Taiwan implies that Taiwan is *no longer* a 'nation.'" (A10) (emphasis added). Citing Restatement (Third) of the Foreign Relations Law of the United States § 202, cmts. *a, b* (1987), the court stated that "[a]n entity's status as a nation, however, does not depend on whether it receives diplomatic recognition from other nations," and the court quickly concluded: "We hold, therefore, that the United States' derecognition of Taiwan did not change Taiwan's status as a nation. Because Taiwan is still a nation, the United States may continue to honor its treaties with Taiwan." (A11.)

The case for certiorari hinges on whether this determination usurps the President's foreign policy powers under the Constitution.

REASONS FOR GRANTING THE WRIT

Perhaps intending to promote "the wishes of the elected branches of government," (A10), the Second Circuit in fact took the extraordinary step of re-making U.S. foreign policy with respect to Taiwan. By doing so it entangled itself in an emotionally charged and politically sensitive international issue: the national status of Taiwan. In addition to being plainly wrong, the decision below presents an ideal opportunity for this Court to recanvass principles of judicial restraint, and Executive primacy, in the foreign policy realm.

1. This Court Should Grant Review to Reverse the Second Circuit's Finding that Taiwan is a "Nation" -- a Finding that Overrides the Consistent Executive Determination for the Past Two Decades to the Contrary

The Second Circuit's approach to the matter of Taiwan's national status was fundamentally misdirected. The question is not whether an entity can be a "nation" without being recognized by other nations; petitioners acknowledge such a possibility. This inquiry is irrelevant, for it does not show that *Taiwan* is a "nation" to begin with. At least since 1661, Taiwan has never

been a "nation." (A4-A5). One need go no further than 11 *New Encyclopedia Britannica* 511 (15th ed. 1988) (Micropedia: Taiwan), which observes that Taiwan is an

> island situated 100 mi (160 km) off the southeast coast of the China mainland . . . governed by the Republic of China, or National Chinese, who also claim jurisdiction over the whole of the mainland China; the island, in their view, is Taiwan Area, or Taiwan District. The People's Republic of China, in turn, claims jurisdiction over Taiwan. Both governments agree that Taiwan is a province of China.

The Court of Appeals failed to honor decades of Chinese history and the consistent policy of the Executive Branch concerning the status of Taiwan.

What the United States derecognized in 1979 was not "Taiwan," but rather "the Republic of China" -- a *government*, not a land mass -- which for several decades was recognized as the sole legitimate government of all of China, including the province of Taiwan. The United States had never before then recognized "Taiwan" as any sort of independent entity, much less a "nation." Upon derecognition of the Republic of China, the United States recognized "the People's Republic of China" ("PRC") -- again, a *government*, not a land mass -- as the sole legitimate government of all of China, including the province of Taiwan.

President Carter expressly reaffirmed the status of Taiwan as part of China, and removed any possibility that it could be considered a "nation" on its own, in the Joint Communique he approved with the PRC on December 15, 1978. In that document, the United States acknowledged that "all Chinese on either side of the Taiwan Strait maintain that there is but one China and that Taiwan is part of China," and recognized that the PRC is "the sole legal Government of China." 14 *Weekly Comp. of Pres. Doc.* 2264 (Dec. 18, 1978).

The Joint Communique, of course, merely reflected reality -- that under standard principles of international law, there was simply no basis for suggesting that Taiwan was a nation. The

key reality under international law is that neither the governing authorities on Taiwan nor those on the mainland *claim* that Taiwan is a nation. Indeed, politicians on Taiwan favoring independence for Taiwan recently suffered a crushing defeat at the polls. During the campaign debate over independence, authorities on the mainland repeated their long-standing vow to invade Taiwan if its people attempt to secede from China.[2]

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[2] A small sampling of major press articles spanning the past six months shows that no serious claim exists that Taiwan is a "nation":

• "For the last four decades, the Nationalist government has insisted that the island remains part of China and will one day be politically reunited with the mainland . . . . In Saturday's general election, the first . . . in which opposition candidates dared to campaign openly for independence, Taiwanese had a chance to reverse that policy. By handing the Nationalist Party a crushing victory in the polls, voters showed they wanted Taiwan to remain legally part of the 'Chinese motherland'." Drew Torchia, *Voters Say Taiwan is Part of China*, The Independent, Dec. 23, 1991, at 8.

• "The [Nationalist Party] won more than 70 percent of the vote. That margin testifies to public support for the [Nationalist Party's] 'One China' doctrine, holding that eventual reunification with the mainland is inevitable and that Taiwan's independence is inconceivable. The main opposition party, the Democratic Progressives, openly backed independence, and lost support." *A Strong Vote for One China*, N.Y. Times, Dec. 24, 1991, at A18, col. 1.

• "The ruling party considers advocacy of independence a form of sedition and had threatened to dissolve the [opposition party] after the election. Also, China has said it would invade Taiwan if the island formally breaks from the mainland." James L. Tyson, *Taiwan Voters Opt for Stability*, Christian Science Monitor, Dec. 24, 1991, at 4.

• "[B]ecause of the fear of inviting military attack from Beijing, a National Assembly election last month -- the first full election on Taiwan in four decades -- led to a crushing defeat for the opposition party after it proposed a declaration of independence from China." Nicholas D. Kristof, *Taiwan Becomes a Tiger With an Identity Crisis*, N.Y. Times, Jan. 12, 1992, § 4, at 4, col. 1.

• Currently, "Beijing, Taipei and Washington agree on the unity of China. In the National Assembly election last month, the people of Taiwan voted for the status quo, for prudence and prosperity." Morton I. Abramowitz, *One China, and the Moment of Truth*, N.Y. Times, Jan. 18, 1992, at 23, col. 2.

The dispositive nature of Chinese politics to the issue of Taiwan's "nationhood" is clear from the section of the Restatement (Third) of the Foreign Relations Law of the United States (1987) immediately preceding the section cited by the Second Circuit at A11. Section 201, cmt. *f*, adds a caveat after listing the four standard elements relied on by the Second Circuit:

> While the traditional definition does not formally require it, an entity is not a state if it does not claim to be a state. For example, *Taiwan* might satisfy the elements of the definition in this section, but its authorities have not claimed it to be a state, but rather *part of the state of China*. See Reporters' Note 8, and § 203, comment *f*.

(Emphasis added).

Reporters' Note 8 to comment *f*, cited here, further states:

> 8. *Taiwan*. After the Second World War Japan renounced claims to Taiwan (Formosa). ***Both*** the regime governing Taiwan ***and*** the regime governing the mainland of China have claimed Taiwan as *part of China*, and other

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• "Both Taiwan's ruling Nationalist Party and the Communist Government in Beijing insist that there is but one China, encompassing Taiwan and the mainland. Taiwan's voters passed their own verdict when the dealt the Democratic Progressives a stinging electoral defeat." *Editorial*, N.Y. Times, Feb. 22, 1992, at 22, col. 1.

• "No one in China thinks of Taiwan as anything but a renegade province that will eventually be rejoined to China." The Economist, March 7, 1992, at 35.

• "China regards Taiwan as a renegade province and reserves the right to use force to resolve what it considers to be its own 'internal affair.' A confrontation in the Taiwan Strait could well happen if Taiwan's opposition movement gets its way and declares independence from China. 'If Taiwan declares independence, we'll have to attack them' said a Chinese official with ties to senior generals." Nicholas D. Kristof, *As China Looks at World Order, It Detects New Struggles Emerging*, N.Y. Times, Apr. 21, 1992, at A1, col. 3.

> states have either confirmed or acquiesced in that claim. . . . [S]ince the authorities on Taiwan do not claim that Taiwan is a state of which they are the government, the issue of its statehood has not arisen. See Comment *f*. If Taiwan should claim statehood, it would in effect be purporting to secede from China.

(Emphasis added).

In sum, the governing authorities situated on Taiwan do not claim that Taiwan is a "state," "nation," or other independent entity of any kind; they insist that it is a province of China. The PRC, which rules from mainland China, insists likewise. President Carter, out of an acknowledged desire to maintain smooth relations with all Chinese people, adamantly agreed -- as have all subsequent presidents.[3] The only dissenting voice in

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[3] In a Joint Communique issued by the United States and China on August 17, 1982, President Reagan promised to cut back United States arms assistance to Taiwan, and reaffirmed: "Respect for each other's sovereignty and territorial integrity and noninterference in each other's internal affairs constitute the fundamental principles governing United States-China relations. These principles were confirmed in the Shanghai Communique of Feb. 28, 1972, and reaffirmed in the Joint Communique on the Establishment of Diplomatic Relations which came into effect on Jan. 1, 1979. Both sides emphatically state that these principles continue to govern all aspects of their relations." ¶ 3. President Reagan also promised: "The United States Government attaches great importance to its relations with China, and reiterates that it has no intention of infringing on Chinese sovereignty and territorial integrity, or interfering in China's internal affairs, *or pursuing a policy of 'Two Chinas' or 'one China, one Taiwan.'*" ¶ 5 (emphasis added). *See* N.Y. Times., Aug. 18, 1982, at A12, col. 1 (text of Joint Communique).

President Bush reaffirmed these principles in a press conference held on December 19, 1991, in which he refused to comment on the debate central to elections in Taiwan concerning whether Taiwan should declare its independence. He was asked: "If [independence] became reality, do you think the United States would change its China policy, one-China policy?" President Bush responded:

> That question is too hypothetical. Everyone here that keeps up with these matters is familiar with our obligations under the Shanghai Communique. . . . We don't need any more tensions in that area.

this country is the Second Circuit in its decision below, which has declared that Taiwan is clearly a "nation," and therefore that defendants in 1986-88 were not engaging in protected First Amendment activity, and may be held liable for copyright infringement. Such judicial freelancing is inexcusable, especially in the foreign policy realm, and this Court should take corrective action.

2. This Court Should Grant Review to Protect the President's Powers Over the Foreign Affairs of the United States

Not only did the Second Circuit reach an indefensible result -- that Taiwan is a "nation" -- but, in doing so, the court interfered with the core exercise of the President's power over foreign affairs. This case affords this Court a unique opportunity to underscore the importance of the separation of powers and the dangers that result when one branch usurps the responsibilities of another.

And *I know that there's strong feeling on Taiwan -- continues to be -- that it is, as they have said all along, a part of China.*

White House Briefing, Federal News Service, Dec. 19, 1991 (available on NEXIS) (emphasis added). Both President Reagan and President Bush, of course, made these policy announcements well after passage of both the Copyright Act (1978) and the Taiwan Relations Act (1979), so that anything in those Acts inconsistent with these announcements must be disregarded. *See* Restatement (Third), *supra*, § 115, cmt. *c*, and Reporters' Notes 1 & 5.

The Second Circuit found "significant[]" that each edition since 1979 of *Treaties in Force*, published each year by the State Department, "includes the FCN Treaty as a valid and enforceable treaty." (A7). But the preamble to the same entry cited by the Second Circuit, "China (Taiwan)," also reaffirms consistent Executive policy and destroys the Second Circuit's holding: "The United States acknowledges the Chinese position that there is but one China and Taiwan is part of China. The United States does not recognize the 'Republic of China' as a state or government."

This Court has long recognized "'the very delicate, plenary and exclusive power of the President as the sole organ of the federal government in the field of international relations.'" *Webster v. Doe*, 486 U.S. 592, 605-606 (1988) (O'Connor, J., dissenting) (quoting *United States v. Curtiss-Wright Export Corp.*, 299 U.S. 304, 320 (1936)). *See also Department of the Navy v. Egan*, 484 U.S. 518, 529 (1988) (noting "'the generally accepted view that foreign policy [is] the province and responsibility of the Executive'") (quoting *Haig v. Agee*, 453 U.S. 280, 293-294 (1981)).[4]

In the foreign policy context, "'the courts have traditionally shown the utmost deference to Presidential responsibilities.'" *Egan*, 484 U.S. at 530 (quoting *United States v. Nixon*, 418 U.S. 683, 710 (1974)).[5] *See, e.g., United States v. Verdugo-Urquidez*, 494 U.S. 259, 274-275 (1990); *W.S. Kirkpatrick & Co., Inc. v. Environmental Tectonics Corp.*, 493 U.S. 400, 404-405 (1990); *Morrison v. Olson*, 487 U.S. 654, 726 (1988) (Scalia, J., dissenting) ("What about a special Assistant Secretary of State, with responsibility for one narrow area of foreign policy, who would not only have to be confirmed by the Senate but could also be removed only pursuant to certain carefully designed restrictions?"). Thus, it is only "[i]n the *absence* of a

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[4] *See generally* Restatement (Third), *supra*, § 204, Reporters' Note 1. *See also United States v. Belmont*, 301 U.S. 324, 330 (1937) (holding that "the Executive [has] authority to speak as the sole organ of [the national] government" on questions related to recognition); *Jones v. United States*, 137 U.S. 202, 212 (1890) (holding that "[w]ho is the sovereign, *de jure* or *de facto*, of a territory is not a judicial, but a political question, the determination of which by the legislative and executive departments of any government conclusively binds the judges").

[5] Courts must protect the office of the Executive regardless of whether the temporary holder of that office defends the Executive's interest in a particular legal proceeding. *See Zschernig v. Miller*, 389 U.S. 429, 432 (1968) (invalidating Oregon statute that restricted power of probate courts to award property to citizens of Communist countries as "an intrusion by the State into the field of foreign affairs which the Constitution entrusts to the President and the Congress," despite the reluctance of the State Department to oppose the Oregon law); *cf. United States v. Munoz-Flores*, 110 S. Ct. 1964, 1969-1970 (1990).

Presidential decision [that] a court will decide whether to treat an entity as a state, or a foreign regime as a government, where such a determination is necessary for the purposes of a case before the court." Restatement (Third), *supra*, § 204, cmt. *a* (emphasis added).

This case illustrates that these principles are not mere platitudes or abstractions. In recent months, the PRC on the mainland repeatedly threatened to invade Taiwan if its people chose to declare independence, and in a general election the people on Taiwan resoundingly reaffirmed that Taiwan is part of China. *See* note 2, *supra*. During this process, President Bush explicitly refused to alter the consistent foreign policy of the United States, and he reaffirmed that the United States officially regards Taiwan as a part of China, not an independent nation. *See* note 3, *supra*. The Second Circuit's finding -- that Taiwan is, after all, a nation -- overrides President Bush's judgment and directly usurps his constitutional authority to set U.S. foreign policy.

In the quest for harmonious relations with the Chinese, particularly the PRC, the past several presidents have all declared that there is only *one* China, and that Taiwan is a province of China, not a separate nation. These declarations are controlling, and should be vigorously enforced by this Court.

CONCLUSION

For these reasons, this Court should grant the petition for certiorari.

Respectfully submitted,

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June 11, 1992

APPENDICES

APPENDIX A

Decision of the United States Court of Appeals for the Second Circuit, affirming the district court's finding of copyright infringement, dated January 24, 1992 . . . . . A1

APPENDIX B

Opinion and Order of the United States District Court for the Southern District of New York, finding defendants liable for copyright infringement, dated March 8, 1989 . . . . . A14

APPENDIX C

Opinion and Order of the United States District Court for the Southern District of New York, setting damages, dated June 14, 1991 . . . . A47

APPENDIX D

Denial of petition for rehearing in the United States Court of Appeals for the District of Columbia Circuit, dated March 23, 1992 . . . . . A79

APPENDIX A

UNITED STATES COURT OF APPEALS
For the Second Circuit

No. 91-7694

NEW YORK CHINESE TV PROGRAMS, INC.,
Plaintiff-Appellee,

vs.

U.E. ENTERPRISES, INC.; FLUSHING STAR, INC.; CHAN'S VIDEO & TRADING, INC.; GONG PICTURES, INC.; DANG'S VIDEO, INC.; PO YUEN,
Defendants-Appellants,
QUEENS VIDEO LTD.; JOHN DOES 1-50,
Defendants.

January 24, 1992

Before: PRATT, MAHONEY, and McLAUGHLIN, Circuit Judges. McLAUGHLIN, Circuit Judge:

There are six defendants-appellants: U.E. Enterprises, Inc. ("U.E."); Flushing Star, Inc. ("Flushing Star"); Chan's Video & Trading, Inc. ("Chan's"); Gong Pictures, Inc. ("Gong"); Dang's Video, Inc. ("Dang"); and Po Yuen ("Yuen"). They seek to review a judgment of the United States District Court for the Southern District of New York (Kathleen A. Roberts, *U.S. Magistrate Judge*), finding the six defendants liable for copyright infringement. For the reasons set forth below, we affirm the order of the district court.

BACKGROUND

Three television stations in Taiwan (the "Taiwanese Stations") produce Mandarin language[1] soap operas (the "Pro-

[1] Mandarin is the principal dialect of the Chinese language, and is the

grams"). These Programs are popular among the twenty million people who live on the island of Taiwan.

There are also many Mandarin speaking people in the United States. To tap this American market for Mandarin soap operas, the International Audio Visual Corporation ("IAVC"), a California corporation, contracted with the Taiwanese Stations in 1982 for the right to sell video cassette copies of the Programs in the United States. The Taiwanese Stations also assigned to IAVC the right to obtain American copyrights for the Programs. Shortly after signing this agreement, IAVC registered the Programs for copyright protection with the United States Copyright Office.

In April, 1988, IAVC signed an agreement with plaintiff New York Chinese TV Programs, Inc. ("New York Chinese"). This agreement granted New York Chinese the exclusive license to distribute video cassette copies of the Programs in New York and New Jersey. The agreement also assigned to New York Chinese the right to sue to protect IAVC's copyrights in the Programs throughout New York and New Jersey.

The present controversy arises out of the defendants' attempts to sell the same Programs in the New York-New Jersey area. Operatives of defendants Dang and U.E. videotaped the Programs as they were broadcast in Taiwan, and then imported these tapes surreptitiously into the United States in boxes labelled "Gift." Dang and U.E. later made numerous copies of the tapes, and distributed them to store-front video retail stores operated by U.E. in the New York metropolitan area, including defendants Flushing Star, Chan's, and Gong.

New York Chinese eventually discovered that defendants' stores were renting out illicit videotapes of the Programs. Of course, none of the stores had obtained valid sub-licenses from New York Chinese to do this. New York Chinese filed suit

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official language of China, Taiwan, and Singapore. *See* The Universal Almanac 545 (John W. Wright ed., 1989).

against U.E., Dang, Flushing Star, Chan's, Gong, and Mr. Yuen (the president of both U.E. and Dang) alleging copyright infringement, and requesting damages and a permanent injunction to prevent defendants from further copying or marketing the Programs.

Then-District Judge Walker issued a temporary restraining order on June 17, 1988, prohibiting defendants from copying, distributing, renting, or selling any copies of the Programs. He then assigned the case to Magistrate Judge Kathleen A. Roberts for all purposes, pursuant to 28 U.S.C. § 636(c),[2] and she subsequently bifurcated the liability and damage issues for trial.

On the liability issue, the parties submitted a stipulation of facts for determination. The district court concluded that defendants had infringed the copyrights on the Programs, and permanently enjoined defendants from copying, distributing, selling, renting or otherwise marketing any copies of the Programs.

The district court then held a trial to determine damages, and awarded New York Chinese actual damages of $718,707.85, or, alternatively, statutory damages of $762,500.[3] New York

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[2] 28 U.S.C. § 636(c)(1) provides, in pertinent part, "Upon the consent of the parties, a full-time United States [M]agistrate [Judge] . . . may conduct any or all proceedings in a jury or nonjury civil matter. . . ." In such situations, a non-prevailing party "may appeal directly to the appropriate United States court of appeals from the judgment of the [M]agistrate [Judge] in the same manner as an appeal from any other judgment of a district court." *Id.* § 636(c)(3). Thus, we have jurisdiction to review the judgment of Magistrate Judge Roberts.

[3] "Actual" damages include "damages suffered by [the copyright owner] as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. § 504(b). "Statutory" damages are awarded by the trial court for each work that has been infringed "in a sum of not less than $ 500 or more than $ 20,000 as the court considers just." *Id.* § 504(c)(1). A copyright owner who prevails in a copyright infringement action may elect to recover either actual damages or statutory damages. *Id.*

Chinese opted to receive statutory damages, and a final judgment awarding such damages, plus attorney's fees, was entered on July 5, 1991.

The parties later stipulated to reduce the damages, but defendants have appealed the district court's determination that they are liable for copyright infringement. Accordingly, the sole issue we must address is whether there has been a copyright infringement.

DISCUSSION

To establish a claim for copyright infringement, the plaintiff must (1) possess a valid copyright in a given work, and (2) show that the defendant has copied the work. *Eckes v. Card Prices Update*, 736 F.2d 859, 861 (2d Cir. 1984). Defendants concede that New York Chinese has satisfied the second prong of the *Eckes* test, but focus their attack on the first prong. Specifically, they challenge the district court's ruling that the Programs are eligible for copyright protection under Section 104(b)(1) of the Copyright Act of 1978, codified at 17 U.S.C. § 104(b)(1). We disagree, and affirm the conclusion of the district court.

Section 104(b)(1) makes an original work eligible for copyright protection if

> on the date of first publication, one or more of the authors is a national or domiciliary of the United States, or is a national, domiciliary, or sovereign authority of a foreign nation that is a party to a copyright treaty to which the United States is also a party.

Defendants do not question that the "authors" of the Programs are the Taiwanese Stations, which are Taiwanese nationals. The sole question, then, is whether Taiwan has a copyright treaty with the United States. The answer to this question requires some understanding of the evolution of Taiwan's place in the world community.

From 1661 through 1895, the imperial dynasty that ruled mainland China also controlled the island of Taiwan. In 1895,

following its defeat in the first Sino-Japanese War, the Chinese monarchy ceded control of Taiwan to Japan in the Treaty of Shimomoseki. After the collapse of the Chinese monarchy in 1912, a new government -- the Republic of China ("ROC") -- was established to rule over China.

Shortly after the bombing of Pearl Harbor in December 1941, the ROC declared war on Japan. At that time, the ROC renounced the Treaty of Shimomoseki, and reasserted its claim to sovereignty over Taiwan. However, Taiwan remained under Japanese control until Japan surrendered to the Allied powers, and accepted the Potsdam Declaration on September 2, 1945. The Potsdam Declaration explicitly stated that Taiwan would return to Chinese rule. Thus, the post-World War II ROC included both mainland China and the island of Taiwan.

As the post-war Republic of China sought to enhance its stature in the world, it set out to forge an especially strong economic relationship with the United States. To do this, the ROC signed the Treaty of Friendship, Commerce and Navigation ("FCN Treaty") with the United States in 1946. The FCN Treaty was then ratified by the United States Senate in June, 1948, and took effect on November 30, 1948. *See* Treaty of Friendship, Commerce and Navigation, Nov. 4, 1946, U.S.-Taiwan, 63 Stat. 1299 (1946). The FCN Treaty lies at the core of the present controversy. Of paramount importance is Article IX, which requires both the ROC and the United States to guarantee the privileges of their own laws to citizens of the other nation

> in regard to copyrights, patents, trademarks, trade names, and other literary, artistic and industrial property, upon compliance with the applicable laws and regulations, if any, respecting registration and other formalities which are or may hereafter be enforced by the duly constituted authorities ...

63 Stat. at 1309. Thus, the FCN Treaty empowers the United States to grant copyright protection to works authored by Taiwanese citizens.

Before the ROC could enjoy the fruits of the FCN Treaty, however, civil war broke out in China between Chiang Kai-Shek's ROC army, and communist revolutionaries led by Mao Zedong. The communists ultimately defeated the ROC army in 1949, and established a government called the People's Republic of China ("PRC"). Approximately two million ROC loyalists fled to Taiwan, and have retained control of that island to this day.

The United States declined to establish diplomatic relations with the communist PRC, and continued instead to recognize the ROC as the sole government of China and Taiwan. The United States continued to honor all its agreements with the ROC, which, in effect, meant with Taiwan because, in reality, the ROC controlled only that area. Thus, because the United States had honored the FCN treaty prior to the Chinese revolution, it continued to abide by that treaty's terms in its dealings with Taiwan.

By the 1970's, it had become impossible for the international community to ignore the reality of the PRC, a nation of nearly one billion people. In 1971, the United Nations ordered that China's U.N. seat be taken from the ROC, and given to the PRC. This fueled efforts within the United States to give diplomatic recognition to the PRC, culminating with the United States establishing full diplomatic relations with the PRC on January 1, 1979.

Recognition of the PRC, of course, enveloped the ROC in a diplomatic fog. Neither the PRC nor the ROC asserted that they were two separate countries. Because both the PRC and the ROC professed to be the one true "China," the United States could not pretend that both governments had sovereignty over all of China. Recognition of the PRC, therefore, necessitated derecognition of the ROC. Accordingly, on December 30, 1978, then-President Jimmy Carter signed a memorandum "recognizing the government of the People's Republic of China as the sole legal government of China and . . . terminating diplomatic relations with the Republic of China." President's Memorandum

for All Departments and Agencies: Relations With the People on Taiwan, *reprinted in* 1979 U.S. Code Cong. & Admin. News 75 (hereinafter *President's Memorandum*).

The *President's Memorandum* acknowledged that, despite its termination of diplomatic relations with Taiwan, the United States still wished to maintain "commercial cultural, and other relations with the people of Taiwan without official government representation and without diplomatic relations." *Id.* As part of this policy, the *President's Memorandum* directed that

> Existing international agreements and arrangements in force between the United States and Taiwan shall continue in force and shall be performed and enforced by departments and agencies beginning January 1, 1979, in accordance with their terms and, as appropriate, through that instrumentality.

Id.

Since 1979, the Executive Branch has consistently used the *President's Memorandum*'s mandate as a basis for continuing to honor the FCN Treaty. The State Department annually publishes *Treaties in Force*, listing all treaties that are honored by the United States. Significantly, each edition of *Treaties in Force* published since the United States derecognized Taiwan in 1979 includes the FCN Treaty as a valid and enforceable treaty.

Derecognition of Taiwan prodded Congress to ensure that Taiwan's status as a major United States trading partner remained unscathed.[4] Accordingly, Congress passed the Taiwan Relations Act ("TRA") codified at 22 U.S.C. § 3301, *et seq.*, "to preserve and promote extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people on Taiwan" and to "declare that peace and stability in

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[4] In 1979, Taiwan imported $3 billion of American-made products, making Taiwan the seventeenth largest importer of American goods. In the same period, Taiwan exported $5.6 billion of goods to the United States, ranking it the eighth largest exporter of goods to the United States. *See* Official Statistics of the United States Dep't of Commerce (1979).

the area are in the political, security, and economic interests of the United States." 22 U.S.C. § 3301(b)(1), (2).

The substantive provisions of the TRA are analogous to the *President's Memorandum*. Like the *President's Memorandum*, the TRA states that the

> absence of diplomatic relations or recognition shall not affect the application of the laws of the United States with respect to Taiwan . . . in the [same] manner that the laws of the United States applied with respect to Taiwan prior to January 1, 1979.

22 U.S.C. § 3303(a). More specifically, the TRA mandates

> the continuation in force of all treaties and other international agreements . . . entered into by the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and in force between them on December 31, 1978, unless and until terminated in accordance with law.

Id. § 3303(c).

That Congress intended to include the FCN Treaty within the "treaties in force" between the United States and Taiwan is beyond question. Indeed, the House of Representatives Report on the TRA explicitly stated Congress' intent to honor the FCN Treaty: "[T]he U.S.-ROC Treaty of Friendship, Commerce and Navigation, which provides a legal foundation for commercial relations between the United States and Taiwan, will continue without interruption." H.R. Rep. No. 26, 96th Cong., 1st Sess. 10-11 (1979).

Despite the overwhelming evidence of both the Executive and Legislative Branches' intent to give full effect to the FCN Treaty, defendants make two arguments that the United States no longer has a copyright treaty with Taiwan. First, defendants contend that because the TRA purported to require the United States to honor the obligations of the FCN Treaty, the TRA itself had to be a new "treaty" between the United States and Taiwan. But, the argument runs, the TRA was not made in accordance

with Article II of the United States Constitution and, therefore, is not a valid "treaty." Defendants conclude that because the TRA is not a "treaty," the requirement of Section 104(b)(1) that there be a treaty has not been met. Second, defendants argue that even if the TRA does not have to meet the "treaty" requirement of Section 104(b)(1), the United States cannot constitutionally continue to honor the FCN Treaty. We reject both arguments.

1. The "Treaty" Requirement of Section 104(b)(1)

As noted previously, Section 104(b)(1) permits the granting of copyright protection to works authored by citizens of a foreign nation if that nation is a party to a copyright treaty with the United States. Defendants argue that the United States and Taiwan no longer have such a treaty. This conclusion rests on two premises. First, defendants contend that the FCN Treaty lapsed in 1979 when the United States derecognized Taiwan. Second, defendants assert that the TRA cannot resurrect the obligations imposed by the FCN Treaty because that would require a new treaty, and the TRA is not a treaty.

To be sure, the TRA is not a "treaty." A "treaty" is a contract between nations. *Trans World Airlines v. Franklin Mint Corp.*, 466 U.S. 243, 253 (1984). The TRA is solely a domestic statute. It was passed by both the House of Representatives and the Senate, and became law upon the signature of President Carter. The TRA did not require Taiwanese ratification. The TRA did not impose any obligations on Taiwan. Therefore, the TRA is not a contract between the United States and Taiwan, but rather is a statute that binds just the United States.

The difficulty with the defendants' argument lies in their root premise that the FCN Treaty lapsed upon derecognition of Taiwan. It is well settled that "on the question whether a treaty has ever been terminated, governmental action in respect to it must be regarded as of controlling importance." *Terlinden v. Ames*, 184 U.S. 270, 285 (1902). Moreover, the judiciary should refrain from determining whether a treaty has lapsed, and

instead should defer to the wishes of the elected branches of government. *See Whitney v. Robertson*, 124 U.S. 190, 194 (1888). In this case, both Congress and the Executive Branch have, with rare clarity, determined that the United States must continue to honor the FCN Treaty, despite official diplomatic derecognition of Taiwan.

The TRA requires the United States to honor all previous treaties and international agreements with Taiwan. Among these obligations is the FCN Treaty, which was explicitly noted by the House of Representatives in its report on the TRA. H.R. Rep. No. 26, 96th Cong., 1st Sess. 10-11 (1979). Thus, we find that Congress indisputably intended that the FCN Treaty remain a valid and enforceable treaty.

Similarly, the Executive Branch has not wavered from honoring the FCN Treaty. Each edition of the State Department pamphlet *Treaties in Force* published between 1979 and the present date lists the FCN Treaty as a valid treaty. Moreover, we have not located any proclamation from either the President or any Executive Agency renouncing the United States' obligations under the FCN Treaty.

Because both Congress and the Executive Branch agree that the FCN treaty is to continue in effect, and because of the deference we owe to the political branches of the government in treaty matters, we hold that the FCN treaty remains a valid and enforceable treaty.

2. The Constitutionality of Honoring the FCN Treaty

Defendants contend that if the United States must continue to honor the FCN Treaty, such a course of action violates the constitutional mandate that the President "shall have Power, by and with the Advice and Consent of the Senate, to make Treaties, provided two thirds of the Senators present concur." U.S. Const. art. II, § 2, cl. 2. Because a treaty is a contract between nations, *see Trans World Airlines*, 466 U.S. at 253, defendants argue that the United States' derecognition of Taiwan implies that Taiwan is no longer a "nation," and, thus, the United States

cannot remain bound by any treaties with Taiwan. This argument is fatally flawed because it confuses two distinct concepts: nationhood and diplomatic recognition.

A "nation" is an entity with (1) a defined territory; (2) a permanent population; (3) a government; and (4) the ability to engage in relations with other nations. *See, e.g.*, Hungdah Chiu, *Certain Legal Aspects of Recognizing the People's Republic of China*, 11 CASE W. RES. J. INT'L L. 389, 395-96 (1979). "Diplomatic recognition," marked by an exchange of diplomats, is a formal acknowledgement by a nation that another entity possesses the qualifications for nationhood. An entity's status as a nation, however, does not depend on whether it receives diplomatic recognition from other nations. *See* Restatement (Third) of the Foreign Relations Law of the United States § 202 cmts. a, b (1987). Defendants have cited no authority, and we have found none, that bars treaties between sovereign nations that do not otherwise maintain diplomatic relations. There is no reason in logic or policy to require diplomatic recognition as a *sine qua non* to the treaty-making power. We hold, therefore, that the United States' derecognition of Taiwan did not change Taiwan's status as a nation. Because Taiwan is still a nation, the United States may continue to honor its treaties with Taiwan.

It is significant that Taiwan is not the only nation that has treaties with the United States despite the absence of diplomatic relations. Currently, the United States does not accord diplomatic recognition to nine nations:[5] Albania, Angola, Cambodia, Taiwan, Cuba, Iran, Libya, Vietnam, and North Korea. However, with the exception of Angola and North Korea, each of these nations has at least one treaty with the United States that is currently honored. *See* Treaties in Force, *passim*. Thus, our holding that diplomatic recognition is not a prerequisite for a valid treaty ensures that we do not thwart the ability of the

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[5] This enumeration does not take into account the recent dissolution of the U.S.S.R. and the emergence of its constituent republics as independent nations.

United States to honor treaties with other nations.

Having failed to persuade us that the United States may not constitutionally honor treaties with unrecognized nations, defendants make one final argument: that the TRA has unconstitutionally amended the FCN Treaty. They focus their attack on section 3303(c) of the TRA, which states:

> For all purposes, including actions in any court in the United States, the Congress approves the continuation in force of all treaties and other international agreements . . . entered into by the United States and the *governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979*, and in force between them on December 31, 1978, unless and until terminated in accordance with law.

22 U.S.C. § 3303(c) (emphasis added).

Defendants claim that because the FCN Treaty was signed by the "Republic of China," the TRA's approval of all agreements with the "governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979" changes one of the parties to the FCN Treaty. Because the TRA was not enacted pursuant to the Treaty Clause of the Constitution, defendants argue that the TRA is, therefore, an unconstitutional amendment to the FCN Treaty.

We do not quarrel with defendants' assertion that a significant amendment to a treaty must follow the mandate of the Treaty Clause, and therefore must be proposed by the President, and be ratified following the advice and consent of the Senate. We find, however, that the TRA has not amended the FCN Treaty in such fashion as to implicate the Treaty Clause.

The TRA simply inserted a new name in the FCN Treaty to replace the derecognized "Republic of China," and to recognize the realities of a changed political landscape. A change in the name of a party to a treaty is not an "amendment" to that treaty. *Cf. Arnbjornsdottir-Mendler v. United States*, 721 F.2d 679 (9th Cir. 1983) (treaty between the United States and Denmark

applied to Iceland after Iceland had declared its independence from Denmark). Rather, a treaty is "amended" only if the obligations imposed by that treaty change. The TRA certainly has not changed any of the substantive requirements of the FCN Treaty.

Finally, we are mindful of the strong commercial relationship ties between the United States and Taiwan. Indeed, Taiwan's trade with the United States has increased nearly four-fold since 1979.[6] This trade would surely go elsewhere if the FCN, the bedrock of the U.S.-Taiwanese commercial relationship, were to crumble suddenly. Taiwan, moreover, has unfailingly relied upon the FCN Treaty to provide protection of its own copyright laws to works authored by American citizens. Taiwan would have little reason to honor the FCN Treaty if the United States were to turn its back on the Treaty. Thus, our holding encourages the United States to provide copyright protection to works authored by Taiwanese citizens, and insures that Americans will receive copyright protection of their works in Taiwan.

CONCLUSION

We hold that the FCN treaty is still in effect by virtue of both Congress' enactment of the TRA and the Executive Branch's position that the FCN has remained in effect, and that the actions of both of these branches do not violate the Constitution. The FCN is a valid "treaty" for purposes of Section 104(b)(1) of the Copyright Act. Accordingly, the district court correctly held that the Programs enjoy copyright protection, and defendants are liable for copyright infringement.

AFFIRMED.

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[6] In 1990, Taiwan imported over $11 billion of American goods, and exported over $22 billion of its own goods to the United States. *See* Official Statistics of the United States Dep't of Commerce (1990).

APPENDIX B

UNITED STATES DISTRICT COURT
For the Southern District of New York

No. 88 Civ. 4170 (JMW) (KAR)

NEW YORK CHINESE TV PROGRAMS, INC.,
Plaintiff-Appellee,

vs.

U.E. ENTERPRISES, INC.; FLUSHING STAR, INC.; CHAN'S VIDEO & TRADING, INC.; GONG PICTURES, INC.; DANG'S VIDEO, INC.; PO YUEN,
Defendants-Appellants,
QUEENS VIDEO LTD.; JOHN DOES 1-50,
Defendants.

March 8, 1989

OPINION & ORDER

KATHLEEN A. ROBERTS, UNITED STATES MAGISTRATE:

This action for copyright infringement, violations of Section 43(a) of the Lanham Act, unfair competition and interference with contractual relations was filed on June 16, 1988.[1] Plaintiff seeks damages and an order enjoining defendants from infringing plaintiff's copyrights and other proprietary rights in and to certain Chinese language television programs produced by three Taiwanese television companies. On June 17, 1988, Judge Walker issued an ex parte temporary restraining order, which the parties subsequently agreed would remain in effect pending the court's decision on plaintiff's request for a preliminary injunction. Judge Walker referred the case to me on August 2, 1988,

[1] An Amended Complaint, adding defendants Po Yuen and Dang's Video, Inc., was served on October 31, 1988, and filed on November 10, 1988.

to conduct a hearing on plaintiff's application for a preliminary injunction. The parties thereafter agreed that I would conduct all proceedings in this matter, pursuant to 28 U.S.C. § 636(c) (1968 and Supplement 1988).

Defendants opposed plaintiff's motion for a preliminary injunction on many grounds, asserting, *inter alia*, that the Taiwan Relations Act, 22 U.S.C. § 3301 *et seq.* (1979) (the "TRA"), is unconstitutional to the extent the TRA seeks to confer copyright protection on Taiwanese nationals pursuant to the Treaty of Friendship, Commerce and Navigation (the "FCN Treaty"). Because defendants raised an issue regarding the constitutionality of a federal statute, I invited a response from the Department of Justice, pursuant to 28 U.S.C. § 517 (1968), which submitted a Statement of Interest of the United States ("Statement of Interest") on September 27, 1988. The Court also received an *amicus curiae* brief ("*Amicus* Brief") on September 29, 1988, from Wang & Wang-USA, a California law firm specializing in intellectual property right enforcement between the United States and Taiwan.[2]

On October 11, 1988, I held oral argument on the legal issues pertaining to the application and constitutionality of the TRA. At the same time the parties and I worked to identify and narrow the disputed facts regarding other issues that would require an evidentiary hearing on plaintiff's application for a preliminary injunction. Based upon the success of these efforts and the extensive briefing of all legal issues pertaining to plaintiff's infringement claims, I ordered that the hearing on

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[2] *Amicus* Wang & Wang contends that defendants' challenge to the validity of the FCN Treaty "threaten[s] the very cornerstone of U. S. policy and trade relations with Taiwan." Mr. Wang points out that the FCN Treaty currently serves as "the legal framework through which a host of essential agreements are negotiated with Taiwan, and brought to fruition includ[ing] trade navigation, and tariff agreements as well as agreements to cooperate in educational and cultural matters." Amicus Brief at 1. The reciprocal rights and privileges currently protected by the FCN Treaty are detailed on pages 13-20 of the *Amicus* Brief.

plaintiff's application for a preliminary injunction be consolidated with the trial of the action on the merits pursuant to Fed. R. Civ. P. 65(a)(2). In addition, as set forth in greater detail below, the parties agreed to submit all issues for decision without an evidentiary hearing, based upon motions for summary judgment dismissing the complaint or trial on stipulated testimony and exhibits.

This Opinion therefore constitutes my decision on the motions and my findings of fact and conclusions of law pursuant to Fed. R. Civ. P. 52(a) with respect to plaintiff's claim of copyright infringement. By agreement, plaintiff's other claims, plaintiff's damages and defendants' counterclaims will be tried separately.[3]

BACKGROUND

Plaintiff New York Chinese TV Programs, Inc. ("New York Chinese") is a New York corporation engaged in the distribution of Mandarin language videotapes to its authorized sub-licensee retail outlets for rental purposes. Defendants U.E. Enterprises, Inc. ("UE"), Flushing Star, Inc. ("Star Video"), Chan's Video and Trading, Inc. ("Chan's Video"), Gong Pictures, Inc. ("Gong Pictures"), and Queens Video, Ltd. ("Queens Video"), are New York corporations engaged primarily in selling and renting Chinese language videotapes. Defendant Dang's Video, Inc. ("Dang's Video"), is a subsidiary of UE. Defendant Po Yuen is the President and owner of UE and Dang's Video, and an attorney admitted to practice in New York.

New York Chinese is a licensee of International Audio-Visual Corporation ("IAVC"), a California corporation

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[3] Plaintiff's other claims involve alleged Lanham Act violations, unfair competition and interference with contractual relations. At the hearing before me on November 9, 1988, defendants reserved a possible antitrust counterclaim, as well as potential cross-claims. In addition, defendant Po Yuen reserved his right to answer and further contest the issue of his personal liability for any infringement this court may find by the corporate defendants. *See* Transcript of November 9, 1988 conference at 25-27.

that is the exclusive authorized distributor in the United States and Canada of Mandarin language television programs ("the Programs") produced by three Taiwanese television companies.[4] The Programs are delivered to IAVC in Taiwan and sent to IAVC's California headquarters where they are edited and copied for distribution in North America with IAVC's copyright notice. Copies of the edited version of each Program have been registered with the United States Copyright Office.[5]

On April 20, 1988, IAVC granted plaintiff an exclusive license in New York and New Jersey to distribute and rent videotapes of the Programs to the general public or to selected sub-licensee retail outlets. A copy of the License Agreement is annexed to the Amended Complaint as Exhibit C. By written assignment executed contemporaneously with the License Agreement, and recorded in the United States Copyright Office on or about June 10, 1988, IAVC assigned to New York Chinese: (i) the right, title, and interest in and to the copyrights in New York and New Jersey of programs created on or after March 1, 1988, and the right to commence and maintain actions

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[4] Those companies are Taiwan Television Enterprises, Ltd., China Television Company, and Chinese Television System. IAVC and the Taiwan television companies have agreed to be bound by the decision of this court. The Taiwan television companies have assigned the copyrights to the Programs in the United States to IAVC, and IAVC has duly recorded the assignment of copyright from each of the Taiwan television companies in the United States Copyright Office. Copies of IAVC's agreements with the Taiwan television companies are annexed to the Amended Complaint as Exhibit A. Copies of the assignments of copyright recorded with the Copyright Office are annexed to the Amended Complaint as Exhibit B.

[5] IAVC has previously obtained orders restraining unauthorized distribution of the Programs. *Int'l Audio-Visual Communications. Inc. v. Chen*, CV. 84-2328-DWW (MCX) (C.D. Cal. 1984) (copy of order granting preliminary injunction annexed to Plaintiff's Reply Memo as Exhibit A); *Int'l Audio-Visual Communications. Inc. v. Michael Wu, et al.*, No. 85-521 (C.D. Cal. 1985) (copies of TRO and preliminary injunction annexed to Affidavit of Laurence I. Fox, dated June 15, 1988, as Exhibit A). *See also* Affidavit of Eva Young, dated July 22, 1988 ¶¶ 8-15.

for infringement of the copyrights in such programs; (ii) the right to commence and maintain actions for infringement of programs created on or before February 29, 1988; and (iii) all proceeds from judgments obtained with respect to any infringement of the copyrights in New York and New Jersey. A copy of the Assignment is annexed to the Amended Complaint as Exhibit B. *See also* License Agreement ¶ 19. New York Chinese and IAVC subsequently placed numerous advertisements in Chinese language newspapers and on Chinese language radio stations identifying New York Chinese as the only authorized distributor of the Programs in New York and New Jersey.[6]

On or about May 3, 1988, plaintiff determined that defendants UE, Flushing Star, Chan's Video, Gong Pictures, and Queens Video (none of which is an authorized sub-licensee of New York Chinese) were renting videotapes of the Programs to the public.[7] Plaintiff filed this action on June 16, 1988, alleging that defendants' activities violate the United States copyright laws, 17 U.S.C. § 101 *et seq.* (1979) (the "Copyright Act"), the Lanham Act, 15 U.S.C. § 1125(a) (1982), N.Y. General Business Law § 350 (McKinney 1988), and constitute common law unfair competition and interference with contractual relations.

Through the course of expedited discovery, it was revealed that the videotapes of the Programs distributed by defendants had been copied by a "source" in Taiwan directly off the Taiwanese airwaves (deleting commercials), and shipped to the United States in boxes marked "gift," to Dang's Video, which in turn supplied the tapes to UE for copying and distribution to the other defendants and to the public. UE, Dang's, Yuen and Queens Video admit importing, copying and/or distributing copies of the Programs with knowledge of plaintiff's claim to ownership of the

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[6] Copies of the print advertisements are annexed to the Affidavit of Dick Ying, dated June 13, 1988, as Exhibits D-G.

[7] *See* Affidavit and Supplemental Affidavit of Joy Chen Yu Lewis, dated May 26, 1988 and June 15, 1988, respectively.

copyright.[8] The other defendants acknowledge distributing the Dang's/UE tapes.

Defendants, however, challenge plaintiff's claim of copyright infringement on several legal grounds.[9]

First, defendants contend that because certain differences exist between the Programs as aired on Taiwanese television and the videotapes marketed by New York Chinese, plaintiff at best holds a copyright on a "derivative work." *See* 17 U.S.C. § 103. Defendants argue that because they copied the Programs directly off the Taiwanese airwaves and not from the "edited" version prepared by IAVC in California, they have not infringed plaintiff's copyright on the "derivative" work. Defendants contend that, because IAVC has not registered its copyright on the "underlying work," *i.e.*, the unedited version aired in Taiwan, plaintiff cannot prove that defendants have copied a registered work.

Second, defendants contend that even if the videotapes copyrighted by IAVC are not "derivative works," IAVC does not hold valid U. S. copyrights on the Programs. There are two grounds for this contention: 1) the Programs were "first published" in Taiwan and there is no valid treaty in effect between the United States and Taiwan extending copyright protection to works by Taiwanese nationals that are first published in Taiwan; and 2) even if a valid copyright treaty exists between the United States and Taiwan, IAVC's copyrights are invalid because IAVC made material misrepresentations to the U. S. Copyright Office.

Finally, defendants argue that the "sole purpose" of the

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[8] *See* Affidavit of Laurence I. Fox, dated July 22, 1988, pp. 2-8 (summarizing and annexing deposition testimony of UE owners and officers Manching Ng and Jack Ho); Affidavit of Sui-Ti-Feng (annexed to Queens Video Memo of Law); Affidavit and Supplemental Affidavit of Po Yuen, dated July 12 and July 27, 1988, respectively.

[9] These defenses have been formally raised and briefed in affidavits and memoranda submitted by defendant UE, which have been joined in by all other defendants.

License Agreement between IAVC and plaintiff is the assignment of the right to litigate disputes over copyright infringement, and that the Agreement is therefore "champertous" and should not be enforced by this Court.[10]

DEFENDANTS DERIVATIVE WORK DEFENSE

In order to establish copyright infringement plaintiff "'must show ownership of a valid copyright and copying by the defendant. *Eckes v. Card Prices Update*, 736 F.2d 859, 861 (2d Cir. 1984) (quoting *Novelty Textile Mills. Inc. v. Joan Fabric Corp.*, 558 F.2d 1090, 1092 (2d Cir. 1977)).

A timely obtained certificate of registration "constitute[s] prima facie evidence of the validity of the copyright * * * ," 17 U.S.C. § 401(c), but "a certificate of registration creates no irrebutable presumption of validity." *Durham Industries Inc. v. Tomy Corp.*, 630 F.2d 905, 908 (2d Cir. 1980). Plaintiff has offered prima facie evidence of a valid copyright by submitting timely obtained certificates of registration for the Programs, which were issued by the Copyright Office to plaintiff's assignor, IAVC. *See* Affidavit of Eva Young, dated May 27, 1988, Exhibit H; *see also* Affidavit of Dick Ying, dated June 13, 1988, Exhibit A. Defendants' challenges to the validity of plaintiff's copyright are addressed *infra*, pages 16-44. I turn first to defendants' assertion that they have not copied the works registered by IAVC.

Defendants concede that they have copied and distributed the Programs as they are broadcast by Taiwan TV (except for commercials). They contend, however, that they have not copied the works registered by IAVC, which are "edited" versions of the Programs. Defendants argue that by submitting to the Copyright Office only the edited version of the Programs, IAVC

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[10] Defendants' previously asserted opposition to the application for a preliminary injunction on grounds of delay is moot in light of the consolidation of that application with trial on the merits of the infringement action.

(and therefore plaintiff) obtained a copyright on a "derivative work," or "compilation" leaving the unedited version unprotected and subject to legal copying by defendants.

Section 103 of the Copyright Act provides that copyright protection may be obtained for "derivative works," or "compilations." 17 U.S.C. § 103(a). The Act defines a derivative work as:

> a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

17 U.S.C. § 101. A compilation is defined as

> a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term "compilation" includes collective works.

Id.

In the typical derivative work case, the person accused of infringment contends that the alleged infringing work is independently copyrightable as an original work of authorship. *See, e.g., Durham*, 630 F.2d at 909-911; *L. Batlin & Son. Inc. v. Snyder*, 536 F.2d 486 (2d Cir.) (*en banc*), *cert. denied*, 429 U.S. 857 (1976).

Defendants offer an unusual variation on the classic derivative work defense. Defendants contend that if IAVC's edited version is independently copyrightable as a derivative work, it is by definition a "different work" than the unedited version, and the registration of the edited version does not protect the unedited version. Conversely, if the edited version is not sufficiently "different" to constitute a derivative work, it is the same work as

the unedited version and defendants have therefore copied a registered work.[11]

Without accepting the validity of this approach to the issue,[12] I find that the edited version does not qualify as a derivative work.

The "'one pervading element prerequisite to copyright protection' * * * is originality," *Batlin*, 536 F.2d at 489-90 (quoting 1 M. Nimmer, *Nimmer on Copyright*, § 10 at 32 (1975)). Although the requirement of originality has been described as "modest," "mimimal," and as establishing a "low threshhold," *see Durham*, 630 F.2d at 910, the original aspects of the work must be "more than trivial." *Id.* at 909. As the court noted in *Batlin*, "[t]o extend copyright-ability to minuscule variations would simply put a weapon for harassment in the hands of mischievous copiers * * * ." *Batlin*, 536 F.2d at 492. *see also Gaste v. Kaiserman*, 863 F.2d 1061, 1066 (2d Cir. 1988) ("slavish copying involving no artistic skill whatsoever does not qualify" for copyright protection).

The parties have agreed that I may determine whether the edited versions of the Programs are derivative works by viewing both versions of representative episodes of a Program entitled

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[11] Defendants concede that if IAVC registered its copyright on the Programs as they were broadcast in Taiwan, defendants' derivative work defense would be of no avail.

[12] Plaintiff argues that even if the "edited" version is a derivative work, the distinction is irrelevant where the same individual owns the copyrights in both a derivative work and the original. *See Rexnord. Inc. v. Modern Handling Systems. Inc.*, 379 F. Supp. 1190, 1198-1199 (D. Del. 1974) (plaintiff acquired a valid copyright in the 1968 version of catalogue when it was published with notice of copyright, and plaintiff's copyright in the 1970 catalogue therefore protected plaintiff from copying of the 1968 material from the 1970 catalogue); *see also* 2 M. and D. Nimmer, pNimmer on Copyright, § 7.16[B][2] at 7-120.1 - 121. Because I find that defendants' argument is meritless by their own proposed standard, it is not necessary to decide whether a rule more favorable to plaintiff should be applied.

"The Kidnapped Pearl."

I have reviewed the videotapes in their entirety[13] and make the following findings of fact regarding the similarities and differences between the IAVC version and the Dang's/UE version:

1. The dramatization of the story "The Kidnapped Pearl," including dialogue, universal Chinese subtitles, characters, action settings, costumes and music, is *identical* in both versions.

2. Both versions delete commercials.

3. Each tape contains two episodes.

4. The first episode on the IAVC tape is preceded by a thirty-second display of the IAVC logo and a United States copyright warning, a thirty-second preview of a different IAVC title, and 2-1/2 minutes of opening credits for "The Kidnapped Pearl." The first episode on Dang's/UE tape is preceded only by the opening credits, which are identical to those shown by IAVC.

5. The Taiwan TV logo appears periodically at identical points in the action in both versions in the upper right hand corner of the screen.

6. The end of the first episode on the IAVC tape is followed by a picture of bamboo with the message "please watch the next episode" in Chinese. This does not appear on the Dang's UE tape. The end of the first episode of the Dang's/UE version is followed by 2-1/2 minutes of end credits and highlights from prior and future episodes.

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[13] The presentation of these tapes to the court was somewhat confused. I received two IAVC tapes containing two episodes each. I received one Dang's/UE tape, which defense counsel represented contained four episodes. In fact, the Dang's/UE tape contains only two episodes, which cover the program content of IAVC episodes one and two, and approximately ten minutes of IAVC episode three. Accordingly, my comparison is limited to the first two episodes of each version. I find, however, that this is a sufficient sample for purposes of determining the derivative work issue raised by defendants.

7. The second episode in the IAVC version is preceded only by a short title (the name of the program in raised stone letters with falling leaves) and a brief replay of the last scene in the first IAVC episode. The second episode of the Dang's/UE tape is preceded by 2-1/2 minutes of opening credits (identical to episode one in the IAVC and Dang's/UE versions).

8. The end of the second IAVC episode is followed by the "please watch the next episode" message; the end of the second episode on the Dang's/UE tape is followed by 2-1/2 minutes of end credits and highlights from prior and future episodes; a time-of-day display appears periodically during the end credits.

9. With the exception of the begining of episode one, the beginnings and endings of each episode occur at different points in the action in the two versions. Episode one of the Dang's/UE version ends at a point approximately five minutes further into the story than the IAVC version; epidose two of the Dang's/UE version ends approximately ten minutes further into the story than the IAVC version.[14]

Although defendants refer to a number of the differences detailed above, the only original or creative effort identified by defendants is the "creative selection of dramatic endpoints." Defendants argue that this creative effort is "beyond the bare minimum necessary to constitute a derivative work." UE October 26, 1988 Letter at 2. I find this argument meritless, if not frivolous.

I find that the mere relocation of a few minutes of the program from the end of one to the beginning of the next does not constitute the kind of creative effort and originality required to qualify the IAVC version as an independent derivative work. Rather, I find that IAVC's episode divisions and other additions or deletions of previews and credits are trivial non-programmatic

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[14] Defendants incorrectly assert that the Dang's/UE tapes contains dialogue not found in the IAVC version and that the Dang's/UE tapes contain certain parts of scenes that are not present on the IAVC tapes. UE Letter, October 26, 1988, p.2, ¶ 3; Affidavit of Po Yuen dated July 12, 1988 at ¶ 12. The program content is in fact identical.

"packaging" changes. *See Rohauer v. Killiam Shows Inc.*, 551 F.2d 484, 494-495 n.12 (videotape of silent film "The Son of the Shiek" starring Rudolph Valentino with addition of a few new subtitles and newly incorporated music not sufficient to make it a new work). Under defendants' theory of the necessary quantum of creative effort, the mere serialization of a motion picture preceded by previews of future motion pictures would be independently copyrightable as a derivative work. Such a result would render the "modest" originality requirement meaningless. Accordingly, I find that the defendants have copied and distributed registered works.

COPYRIGHT PROTECTION FOR TAIWANESE WORKS

The parties agree that there are no disputed material issues of fact with respect to this issue and that it may be decided as a matter of law. The submissions of the parties on this question, including Local Rule 3(g) statements, have therefore been considered by me as a motion by defendants for summary judgment dismissing the complaint.

Section 104(b) of the Copyright Act of 1978 governs whether videotapes of the Taiwanese broadcasts at issue here enjoy copyright protection. Section 104(b)(1) grants copyright protection to works authored by citizens or domiciliaries of a "foreign nation that is a party to a copyright treaty to which the United States is also a party." Section 104(b)(2) grants copyright protection if "the work is first published in the United States or in a foreign nation that, on the date of first publication, is a party to the Universal Copyright Convention."

Plaintiff offers two alternative grounds for copyright protection. First, plaintiff argues that its works were "first published" in the United States and are therefore protected under § 104(b)(2).[15] *See, e.g.*, Reply Memorandum of Law in Support

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[15] It is conceded that neither the People's Republic of China nor the governing authorities on Taiwan has ever been a party to the U.C.C. *See* treaty/convention table following 17 U.S.C.A. § 104 (Supp. 1988).

of Plaintiff's Motion for a Preliminary Injunction ("Plaintiff's Reply Memo"), at 16-18. Second, plaintiff contends that, even assuming arguendo that Taiwan is the place of first publication, the works are protected under § 104(b)(1) because Taiwan is a party to a copyright treaty with the United States, i.e., the FCN Treaty signed by the United States and the Republic of China ("ROC") in 1946 and entered into force on November 30, 1948.[16] Article IX of the FCN Treaty provides that each country shall make copyright privileges available to the nationals of the other country on the same basis as to its own citizens. Following the derecognition of the ROC, the FCN Treaty was extended to Taiwan pursuant to the TRA, which continued in force all treaties "entered into by the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979 and in force between them on December 31, 1978 * * * ." 22 U.S.C. § 3303(c) (Supplement 1988).

Defendants concede that the FCN Treaty is a "copyright treaty" within the meaning of the copyright laws.[17] Defendants contend, however, that plaintiff does not hold valid United States copyrights on the Programs because the works were first published in Taiwan and because the TRA does not and cannot constitutionally be interpreted to extend copyright protection under the FCN Treaty to Taiwanese nationals.

For the reasons set forth below, I find that the TRA does and may constitutionally be interpreted to provide copyright protection to Taiwanese nationals. I therefore find that the Programs are protected under 17 U.S.C. § 104(b)(1), and do not reach the issue of whether the works were first published in Taiwan or the United States.

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[16] A copy of the FCN Treaty is annexed to Plaintiff's Reply Memo as Exhibit B.

[17] The FCN Treaty is listed on the treaty/convention table following 17 U.S.C. § 104 (Supplement 1988).

Historical Context

In order to understand defendants' statutory and constitutional claims, it is necessary to provide a brief historical overview of the United States' changing relationship with the ROC and the People's Republic of China ("PRC"), as well as the facts surrounding the FCN Treaty, the derecognition of the ROC, and the enactment of the TRA.

Japan assumed control of the island of Taiwan following Japan's victory over China in 1895 in the first Sino-Japanese war, and pursuant to the Treaty of Shimonoseki. The ROC renounced the Treaty of Shimonoseki on December 9, 1941, when the ROC formally declared war on Japan. Taiwan remained in Japanese control until it was restored to the ROC following Japan's surrender and acceptance of the Potsdam Declaration on September 2, 1945.

The ROC entered into the FCN Treaty with the United States in 1946, ensuring reciprocal protection for intellectual property, and solidifying important trade relations. Within two years of the signing of the FCN Treaty, however, the leaders of the ROC, including Chiang Kai-Shek, had relocated on Taiwan, following their overthrow by the Communists and the establishment of the PRC.

The United States continued to honor all commitments it had made with the ROC before relocation, but simply confined the scope of the agreements to the island of Taiwan. The United States did not have any formal relations with the PRC, and asserted that the ROC, temporarily exiled on Taiwan, was the legitimate ruler of all of China.

The passage of several decades eventually led to an opening of relations with the PRC. Visits to the mainland by Secretary of State Henry Kissinger (the so-called "secret trip to Peking") in 1971, followed by President Nixon's trip in early 1972, and the pledge in the Shanghai Communique to normalize relations, culminated in President Carter's Memorandum of December 30, 1978, terminating diplomatic relations with the ROC and

recognizing the PRC as "the sole legal government of China." Memorandum of December 30, 1978, ("*Memorandum*") reprinted in U. S. Code Cong. & Ad. News (96th Cong. 1st session 1979) at p. 75.[18]

At the same time, however, President Carter took steps to assure the Taiwanese that they were not being abandoned by the United States. In a communique dated December 15, 1978, President Carter reserved the right to sell "defensive" arms to Taiwan in the event the PRC and Taiwan remained hostile to one another. *See* Senate Report No. 96-7 at p. 6, reprinted in U. S. Code Cong. & Ad. News (96th Cong. 1st session 1979) at p. 41 (hereinafter "*Senate Report*"). Congress explicitly adopted this policy in the TRA. 22 U.S.C. § 3302(a). President Carter also declared in his December 30 Memorandum that "the American people will maintain commercial, cultural and other relations with the people of Taiwan without official government representation and without diplomatic relations." *Memorandum* (first full paragraph). Specifically, President Carter directed that existing international agreements between the United States and Taiwan continue in force. *Id.* ¶ (B).

The Senate, and particularly the Senate Committee on Foreign Relations and the Senate Committee on Finance, became integrally involved in determining how to structure and conduct post-derecognition relations with Taiwan. The Senate passed a bill (S.245) establishing a detailed structure for the conduct of post-derecognition relations. The House of Representatives also passed a bill to "promote extensive, close and friendly relations" with the people of Taiwan. *See* House Conference Report No. 96-71, reprinted in U. S. Code Cong. & Ad. News (96th Congress, 1st Session, 1979). The House bill (H.R. 2479) integrated much of the text of the Senate bill, and the House bill

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[18] This *Memorandum* was issued pursuant to the President's constitutional authority to recognize and derecognize nations. *See National Petrochemical Co. of Iran v. The M/T Stolt Sheaf*, 860 F.2d 551 (2d Cir. 1988); *Chang v. Northwestern Memorial Hospital*, 506 F. Supp. 975, 977 (N.D. Ill. 1980).

became the TRA (P.L. 96-8) when it was passed by both houses and approved by President Carter on April 10, 1979. The TRA was retroactively effective as of January 1, 1979, the date President Carter's *Memorandum* became effective. The TRA contains several provisions relevant to the disposition of this case.

First, the TRA provides that "[t]he absence of diplomatic relations or recognition shall not affect the application of the laws of the United States with respect to Taiwan, and the laws of the United States shall apply with respect to Taiwan in the manner that the laws of the United States applied with respect to Taiwan prior to January 1, 1979." 22 U.S.C. § 3303(a).

The TRA reiterates the provision of President Carter's *Memorandum* that "[w]herever the laws of the United States refer or relate to foreign countries * * * those laws shall apply with respect to Taiwan," 22 U.S.C. § 3303(b)(1), and provides that "[t]he absence of diplomatic relations and recognition with respect to Taiwan shall not abrogate, infringe, modify, deny, or otherwise affect in any way any rights or obligations * * * heretofore or hereafter acquired by or with respect to Taiwan." 22 U.S.C. § 3303 (b)(3)(A).

The TRA further provides that "[n]o requirement, whether expressed or implied, under the laws of the United States with respect to maintenance of diplomatic relations or recognition shall be applicable with respect to Taiwan." 22 U.S.C. § 3303(b)(8). Finally, and most importantly for purposes of this case, the TRA provides that "[f]or all purposes, including actions in any court in the United States, the Congress approves the continuation in force of all treaties and other international agreements, including multilateral conventions, entered into by the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and in force between them on December 31, 1978, unless and until terminated in accordance with law." 22 U.S.C. § 3303(c).

The TRA defines Taiwan as "the islands of Taiwan and the Pescadores, the people on those islands, corporations and other

entities and associations created or organized under the laws applied on those islands, and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and any successor governing authorities * * * ." U.S.C. § 3314(2).

The FCN Treaty is listed as a treaty in force between the United States and "China (Taiwan)" in the State Department publication, *"Treaties in Force: A List of Treaties and other International Agreements of the United States in Force on January 1, 1987"* (excerpt annexed as Exhibit C to Plaintiff's Memorandum in Response to UE Supplementary Memorandum of Law) ("Pl. Resp. Memo").

Validity of the FCN Treaty Prior to 1979

Defendants initially asserted that at the time the FCN Treaty was negotiated and became effective, Taiwan was still under Japanese control and that the ROC governed only what is known as "mainland" China. Defendants therefore argued that because the FCN Treaty was made in the context of an "expressly territorial relationship between the United States and the mainland," the Nationalist Government did not succeed to the FCN Treaty following its defeat by Communist forces in 1949 and subsequent flight to Taiwan. *See* UE Supplementary Memorandum of Law ("UE Supp. Memo") at 13-16, 18-19. Defendants asserted that "[p]ursuant to the normal principles of international law, and absent special, affirmative action by the United States, the [People's Republic of China] would have succeeded to the treaties that were in force at the time the Nationalists were routed * * * ." *Id.* at 17-18.

Defendants substantially retreated from this position after amicus Wang and Wang demonstrated that Taiwan was in fact under ROC control when the FCN Treaty was signed and that references in that FCN Treaty to the "territories of the ROC" therefore included the territory of Taiwan. *See Amicus* Brief at 5-10. *See also* Declaration of Dr. Tao-Tai Hsia, (*Amicus* Brief, Exhibit A) at 1-3. In addition, the Government's Statement of

Interest demonstrated that wholly apart from the question of the ROC's control of Taiwan in 1946, or its lack of control over the mainland after 1949, the determination that a government is a party to a treaty covering a particular territory is exclusively the function of the executive branch, pursuant to its power to recognize and derecognize governments. *See* Statement of Interest at 8-9.

In their reply brief defendants concede that

> in determining who is a party to a particular treaty covering a certain territory, a court must first look to who the President recognizes as legitimate government of that territory, and it does not matter whether that government actually controls the territory. Thus, the FCN Treaty was perhaps preserved from 1949 to 1979, with the Republic of China as the party to it, even though that government did not control the territory covered by the FCN Treaty -- or at best * * * controlled only a small portion of it.

Memorandum of law in Reply to the Three Briefs Opposing its Supplementary Memorandum of Law ("UE Reply Memo") at 8 n.8.

Post-Derecognition Validity of FCN Treaty

Defendants now focus their argument on the asserted invalidity of the FCN Treaty following derecognition of the ROC in 1979. Defendants acknowledge that the TRA expressly approves "the continuation in force of all treaties and other international agreements * * * entered into by the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and in force between them on December 31, 1978 * * * ." 22 U.S.C. § 3303(c). They argue, however, that because the TRA refers to treaties entered into by the United States and "the governing authorities on Taiwan," the TRA applies only to treaties entered into with the Taiwan authorities *while they were on Taiwan*. UE Supp. Memo at 27; UE Reply Memo at 15. Defendants' theory is essentially that the words "on Taiwan" in

§ 3303(c) are meant to draw a distinction according to where the governing authorities were when the treaty was entered into--"on Taiwan" or "on the Chinese mainland." Because the FCN Treaty was entered into with the governing authorities while they were on the mainland in 1946, defendants conclude that the FCN Treaty is not covered by the TRA.

This interpretation of the TRA is contrary to both its language and legislative history, which demonstrate that Congress intended the TRA to apply to all treaties and international agreements that were *in force* between the United States and the Republic of China as of December 31, 1978, and not only those concluded after the governing authorities moved to Taiwan.

The language of the TRA makes clear that "governing authorities on Taiwan" refers to the government recognized by the United States as the Republic of China until January 1, 1979. Indeed, § 3304(c) makes the term "governing authorities on Taiwan" the functional equivalent of the term "Republic of China." The use of the qualifying phrase "recognized by the United States as the Republic of China prior to January 1, 1979" clearly indicates that the phrase "governing authorities on Taiwan" was meant to refer to the governing authorities formerly recognized as the Republic of China.[19]

The legislative history of § 3303(c) makes this even clearer:

> This section was added by the Committee to remove any doubt concerning the validity of the international agreements in force between the United States and the entity recognized as the Republic of China prior to the normalization of relations with the People's Republic of China. Its effect is to make clear that these agreements have not "lapsed" and that they continue in effect between the United States and the people on Taiwan. The reference to all courts "in" the United States expresses the Committee's intent that this rule

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[19] These governing authorities are consistently referred to throughout the TRA as the "governing authorities on Taiwan." *See* 22 U.S.C. §§ 3301(a), 3303(b)(3)(B), 3309(b), 3311(b)(1), 3314(2).

> of substantive Federal law be applied by both Federal and State courts.

Senate Report at p. 30.

The Senate Report similarly describes the Senate version of this provision as:

> added by the [Foreign Relations] Committee to remove any doubt concerning the validity of the international agreements in force between the United States and the entity recognized as the Republic of China prior to the normalization of relations with the People's Republic of China.

Senate Report at p. 25.

In addition, the legislative history specifically mentions the FCN Treaty as an example of a treaty covered by the TRA. The House Report states that the House version of the legislation is:

> designed to make clear that all treaties and international agreements between the United States and the Republic of China which were in force before derecognition will continue to be in force. For example, the U.S. ROC Treaty of Friendship, Commerce and Navigation, which provides a legal foundation for commercial relations between the United States and Taiwan, will continue without interruption. No United States-Republic of China treaty or international agreement would be terminated except that which is terminated under its terms or otherwise, pursuant to U.S. law.

House Report, H.R. Rep. No. 26, "House Report together with Additional Views", accompanying H.R. 2479 (printed pamphlet) (96th Cong., 1st Sess. 1979) at pp. 10-11.

The final bill, as described in the Conference Report,

> combines both the general House provisions and the more specific Senate provisions without weakening or narrowing the applicability of any of the provisions adopted. * * * The conference substitute further provides that the Congress

> approves the continuation in force of all treaties and other international agreements, including multilateral conventions, between the United States and Taiwan which were in force prior to January 1, 1979, * * * with regard to the issue of conditioning the right to sue and be sued on reciprocity, the Committee of Conference noted that the Treaty of Friendship, Commerce, and Navigation between the United States and the Republic of China continues in force.

Conference Report, H.R. Report 7, reprinted in U. S. Code Cong. & Ad. News (96th Cong. 1st Sess. 1979) at p. 99.

Finally, consistent testimony by Executive Branch witnesses supports this reading of § 3303(c). *See e.g., Implementation of Taiwan relations Act: Issues and Concerns, Hearings Before the Subcomm. on Asian and Pacific Affairs of the House Comm. on Foreign Affairs*, 96th Cong., 1st Sess. 12 (1979) (statement of Assistant Secretary of State Richard Holbrooke, noting that international agreements with Taiwan remain in force, with specific mention of the FCN Treaty); *Taiwan Hearings Before the Senate Comm. on Foreign Relations*, 96th Cong., 1st Sess. 74, 77 (1979) (State Department responses to questions by Senator Stone note that all international agreements (except the Mutual Defense Treaty and other related agreements), including the FCN Treaty, remain in force); *id.* at 106 (response by State Department Legal Adviser Hansell to question by Senator Percy notes that TRA provides for continuation in force of the FCN Treaty).

There can therefore be no doubt that Congress intended the TRA to continue the provisions of the FCN Treaty in force between the United States and Taiwan.[20]

Defendants next argue that if the TRA purports to extend the provisions of the FCN Treaty to Taiwan, as I find it does,

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[20] At least two other courts have reached this conclusion. *See Int'l Audio-Visual Audio-Visual Communications v. Chen, supra*, n.5; *Chang* 506 F. Supp. at 978.

Congress has unlawfully "amended" the FCN Treaty 1) by changing the other "High Contracting Party" from the ROC to "the governing authorities on Taiwan" and 2) by eliminating those provisions of the FCN Treaty that may be read to require the existence of official diplomatic relations between the contracting parties. Such "amendments," defendants contend, are unconstitutional because under the Treaty Clause, only the President, with the advice and consent of the Senate, may make or amend a treaty.[21] *See* UE Supp. Memo at 25-26; UE Reply Memo at 11.

Plaintiff argues that the TRA does not constitute an "amendment" of the FCN Treaty because "the governing authorities on Taiwan" are the same "High Contracting Party" that entered into the FCN Treaty in 1948, *i.e.*, the nationalist government that previously ruled the ROC. Moreover, as the Government also points out, a change in the name of one of the parties to a treaty, as a result of succession or modification of states, a government's renaming of a state, or changes in recognition, is not normally considered an "amendment" requiring further Senate action. Statement of Interest at 11 n.4. *See, e.g., Arnbjornsdottir-Mendler v. United States*, 721 F.2d 679 (9th Cir. 1983) (treaty between United States and Denmark remained in force vis-a-vis Iceland after Iceland declared its independence from Denmark). Rather, such matters fall within the recognition power of the Executive Branch. Accordingly, because the Executive Branch has consistently maintained since the derecognition of the ROC that the FCN Treaty remains in force with the governing authorities on Taiwan, and because Congress has concurred in that view, the FCN Treaty may constitutionally continue in force with Taiwan.

The Government also persuasively argues that even if the TRA were construed as an "amendment" of the FCN Treaty, or,

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[21] Article II, § 2 cl. 2 provides: "He [the President] shall have Power, by and with the advice and Consent of the Senate, to make Treaties, provided two thirds of the Senators present concur * * *."

for that matter, as an attempt to make an entirely new international agreement with Taiwan, there is no constitutional impediment to such action, because Congress and the President *may* constitutionally enter into "legislative-executive agreements" that are as binding in United States law as treaties. Statement of Interest at 11 n.4. *See, e.g., Weinberger v. Rossi*, 456 U.S. 25, 32 (1982) (equating Military Base Labor Agreement with the Republic of the Phillipines, authorized by statute, with "treaty" for purposes of United States law); *Star-Kist Foods Inc. v. United States*, 169 F. Supp. 268 (Cust. Ct. 1958), *aff'd*, 275 F.2d 472 (C.C.P.A. 1959) (Congress has authority to authorize the President to enter into executive agreements). *See also Treaties and Other International Agreements: The Role of the United States Senate. A Study Prepared for the Senate Comm. on Foreign Relations*, 98th Cong., 2d Sess. 71-77 (1984); M. McDougal and A. Lans, *"Treaties and Congressional-Executive Agreements: Interchangeable Instruments of National Policy"*, 54 YALE L.J. 181, 216-218 (1945); *Restatement (Third) of the Foreign Relations Law of the United States* §§ 302(2) and 303 (1987). Indeed, the author of defendants' brief on this issue, Professor Laurence Tribe, acknowledges in his treatise on American Constitutional law that such congressional-executive agreements are "coextensive with the treaty power." L. Tribe, *American Constitutional Law* (1979) at p. 170 n.18. *Accord* L. Henkin, *Foreign Affairs and the Constitution* (1972) at p. 173 n.1.

Defendants counter that even if a congressional-executive agreement had been created, it would not satisfy § 104(b)(1) of the copyright Act, which requires a treaty entered into *pursuant to Article II*. UE Reply Memo at 5 n.4, 17-18. I disagree. Nothing in the Copyright Act suggests such a rigid requirement and defendants cite no authority for this assertion. In any event, the TRA clearly eliminated any such requirement with respect to Taiwan.

Finally, as defendants concede, Congress could at any time constitutionally pass a law that would grant Taiwanese nationals copyright protection equivalent to that existing for the ROC prior

to January 1, 1979. UE Reply Memo at 14, 19. Thus, the constitutional issues defendants seek to raise may properly be avoided by considering the TRA not as an amendment of a treaty or a "hybrid" international agreement, but as a domestic law extending to Taiwan the provisions of the FCN Treaty pertaining to copyright protection despite derecognition and the cessation of formal diplomatic relations. *See* Statement of Interest at 3, 10-14 (Congress, in the TRA, could constitutionally consider the FCN Treaty to be in force for purposes of the Copyright Act, irrespective of the TRA's effect on the international obligations of the United States). *See also Chang v. Northwestern Memorial Hospital*, 506 F. Supp. 975 (N.D. Ill. 1980); *Int'l Audio-Visual Communications, Inc. v. Chen*, No. CV 84-2328-DWW (MCX) (C.D. Cal. 1984) (opinion annexed as appendix A to Plaintiff's Reply Memo).

For all of the above reasons, I find that the TRA constitutionally continues in force those provisions of the FCN Treaty providing reciprocal copyright protection to Taiwanese nationals and deny defendants' motion to dismiss the complaint on this ground.

CHAMPERTY

Although defendants acknowledge that the question of whether an agreement is champertous is normally a question of fact, see UE Memo at 12, defendants have restricted their challenge to the IAVC -- New York Chinese License Agreement to the face of the document,[22] which they argue is champertous as a matter of law, and therefore void.[23]

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[22] Because defendants have chosen to limit their attack to the face of the agreement, I do not address the assertions contained in their submissions regarding the subjective motives of plaintiff's President, Dick Ying.

[23] "Champerty is a bargain between a stranger and a party to a lawsuit by which the stranger pursues the party's claim in consideration of receiving part of any judgment proceeds. It is one type of 'maintenance,' the more general term, which refers to maintaining, supporting, or promoting another person's litigation." *Alexander v. Unification Church*

In support of their argument that the Agreement is champertous on its face, defendants point to the following provisions:

1) As part of the "consideration" for the assignment, New York Chinese agrees to commence and maintain "such actions with respect to any infringements or imitations of the licensed tapes as it deems advisable for the protection of its rights * * * ." Agreement ¶ 10(a).[24]

2) Plaintiff is not required to pay IAVC the yearly license fee of $360,000 until 30 days after plaintiff obtains its first preliminary injunction in an infringement action. Agreement ¶ 3(a).

3) IAVC may terminate the agreement at the end of one year if plaintiff has been unable to obtain a preliminary injunction. Agreement ¶ 11(a)(iv).

4) IAVC specifically conveys to New York Chinese the right to sue for infringements which occurred prior to the Agreement and the right to retain "all monetary judgments obtained as a result of such actions." Agreement ¶ 10(b).

5) IAVC agrees to permit plaintiff's $40,000 security deposit to be placed in escrow with plaintiff's attorneys, and to be applied to plaintiff's legal fees in prosecuting infringement actions. Agreement ¶ 10(c).

Defendants' assertion that the assignment of IAVC's copyright to plaintiff is champertous, and therefore invalid, rests

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of America, 634 F.2d 673, 677 n.5 (2d Cir. 1980). Champerty is a viable defense to another's claim to the extent it is outlawed by statute. *Sedgwick against Stanton*, 14 N.Y. 289, 294-95 (1856); *see also Irvin v. Curie*, 171 N.Y. 409, 411 (1902). A champertous assignment is null and void. *See Koro Co., Inc. v. Bristol-Myers Co.*, 568 F. Supp. 280, 288 (D.D.C. 1983) (applying New York's champerty law to invalidate a contract); *Lost Lots Associates. Ltd. v. Bruyn*, 415 N.Y.S.2d 99 (3rd Dep't 1979); *see also Alexander*, 634 F.2d at 677 n.6.

[24] The Agreement is annexed to the Amended Complaint as part of Exhibit C.

upon Section 489 of the New York Judiciary Law (McKinney 1983 and Supplement 1989).[25] The landmark case interpreting the New York champerty statute is *Moses v. McDivitt*, 88 N.Y. 62 (1882). In *Moses* the court held that the statute "prohibits the purchase by attorneys * * * of choses in action '*with the intent* and *for the purpose*' of bringing a suit thereon." *Moses*, 88 N.Y. at 65 (emphasis original) (quoting predecessor statute). The purpose of the statute is to prevent trafficking and speculation in lawsuits. *Koro Co. Inc. v. Bristol-Myers Co.*, 568 F. Supp. 280, 288 (D.D.C. 1983) (applying New York law); *see also Fairchild Hiller Corp. v. McDonnell Douglas Corp.*, 28 N.Y.2d 325, 321 N.Y.S.2d 857, 860 (1971) (section 489 is designed to prevent the "strife, discord, and harassment which could result from permitting attorneys and corporations to purchase claims for the purpose of bringing actions thereon").

It is well-established that a violation of § 489 is established only when the purchase is made for the purpose of bringing a lawsuit, to the "exclusion of any other purpose," and that an assignment is lawful where the intent to bring a suit is merely "incidental and contingent" to other rights conveyed. *Moses*, 88 N.Y. at 65; *see also Sygma Photo News. Inc. v. Globe Int'l. Inc.*, 616 F. Supp. 1153, 1157 (S.D.N.Y. 1985); *Koro*, 568 F. Supp. at 286-287; *Welch v. Corp. Inc.*, 97 F. Supp. 185, 186 (S.D.N.Y. 1951); *Fairchild*, 28 N.Y.2d at 330, 321 N.Y.S. 860; *Sprung v. Jaffe*, 3 N.Y.2d 539, 544, 169 N.Y.S.2d 456, 460 (1959); *Realty Corp. v. USwiss Realty Holdinq, Inc.*, 492 N.Y.S.2d 754, 755-756 (1st Dep't 1985); *1015 Gerard Realty*

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[25] Section 489 of the New York Judiciary Law provides in pertinent part as follows:

> No * * * corporation or association, directly or indirectly, itself or by or through its officers, agents or employees, shall solicit, buy or take an assignment of a * * * thing in action, or any claim or demand, with the intent and for the purpose of bringing an action or proceeding thereon; * * *. Any corporation or association violating the provisions of this section shall be liable to a fine of not more than five thousand dollars * * *.

Corp. v. A & S Improvements Corp., 457 N.Y.S.2d 821 (1st Dep't 1983); *Prudential Oil Corp. v. Phillips Petroleum Co.*, 415 N.Y.S.2d 217, 218 (1st Dep't 1979); *American Express Co. v. Control Data Corp.*, 376 N.Y.S.2d 153, 154 (1st Dep't 1975) (per curiam).

Applying these legal principles to the facts of this case, I find that the License Agreement and Assignment between IAVC and New York Chinese is not champertous. The Assignment conveys actual and valuable rights, namely, the exclusive right to distribute the Mandarin language tapes in New Jersey and New York, as well as the right to enter into sub-license agreements with retailers. *See License Agreement*, § 3(b). The *License Agreement* spells out the details of the parties' ongoing business relationship, including, *inter alia*, the minimum number of program hours annually that plaintiff will receive from IAVC, how delivery of the tapes is to be effected, and the continuing advertising rights and obligations of IAVC. At the same time, IAVC and plaintiff were clearly aware that infringement of the Mandarin language tapes had taken place in the New York area, and that it would undoubtedly continue if not prosecuted. Accordingly, the provisions regarding prosecution of infringement reflect one of the realities of copyright ownership: the continuing battle to stem infringement that threatens to diminish the value of the copyright. Indeed, because of this reality, an assignee generally owes an affirmative duty to its assignor to sue for infringements the assignee learns of, and the failure to do so could potentially lead to an action for rescission, and possibly damages, against the assignee. *See* 3 M. and D. Nimmer, *Nimmer on Copyright* ("Nimmer") (1988) § 12.02, at 12-27 - 12-28.

I find that the "right to sue" provisions of the Assignment are not champertous, but "incidental and contingent" to the assignment of valuable distribution rights in New York and New Jersey, and that the license agreement and assignment are therefore fully enforceable. Defendants' motion to dismiss the complaint on this ground is therefore denied.

FRAUD ON THE COPYRIGHT OFFICE

Defendants contend that IAVC's copyright is invalid and unenforceable by plaintiff because IAVC knowingly misrepresented or failed to present to the U. S. Copyright Office material facts regarding the Programs. Defendants assert that if the correct information had been provided to the Copyright Office, IAVC's applications would have been rejected. *See Russ Berrie & Co. Inc. v. Jerry Elsner Co. Inc.*, 482 F. Supp. 980, 988 (S.D.N.Y. 1980) (court may declare a copyright invalid and deny enforcement on the ground of unclean hands if it finds that the applicant knowingly failed to advise the Copyright Office of facts which might have occasioned a rejection of the application); *see also* 3 Nimmer § 13.09(b) at 13-142 - 13-148; 2 Nimmer § 7.20 at 7-147.

Following discovery, defendants waived an evidentiary hearing on this issue and agreed that the court could make findings of face and conclusions of law on the merits of their claim of fraud on the Copyright Office based upon documentary evidence and the deposition testimony of Julia Baker Huff (a Copyright Examiner in 1984 and currently Head of the Performing Arts Section of the United States Copyright Office); Eva Young (the treasurer of IAVC); and Ronald L. Yin, Esq. (the attorney for IAVC who represented IAVC in connection with its applications to the Copyright Office for these Programs).

The following facts are undisputed: each of the Programs is broadcast once over the Taiwanese airways. Following this broadcast, a 3/4" "mastertape" is delivered to IAVC's office in Taipei, Taiwan, where the quality of the mastertape is reviewed. IAVC then sends the mastertape (uncopied and unedited) to its home office in Brisbane, California, where the Program is edited, copied onto a 1/2" videotape and distributed for rental to the public. The Taiwanese television stations are paid by IAVC's office in Taipei. For several years prior to 1984, IAVC submitted to the Copyright Office a registration application for each Program, accompanied by a 1/2" tape of the version edited by IAVC in California. IAVC did not submit the 3/4" master-

tape and did not include in its applications any reference to the fact that the 3/4" tape had been sent to IAVC's Taipei office for review prior to shipment to the United States, or to the fact that the 1/2" tape is an edited 'version of the Program as broadcast in Taiwan. The applications did state, however, that the Programs were "first published" in Taiwan, because Mr. Yin mistakenly believed that the broadcast in Taiwan constituted publication under the Copyright Act. The Copyright Office at no time questioned the application of the Copyright Act to works first published in Taiwan.

On March 21, 1984, Mr. Yin was contacted by Copyright Examiner Julia Huff. Ms. Huff told Mr. Yin that she believed IAVC should be submitting the 3/4" mastertape as the "best edition" of the work as first published in Taiwan. Ms. Huff's memorandum to the file regarding this conversation reads as follows:

> I questioned best edition as first published. He said that works first aired and then a 3/4 inch tape sent to U.S. where 1/2 inch tapes made and distributed. We discussed publication . . . definition in law and possibility that were published by a network or station authorized copies to made (sic) at time of airing and these copies to be used for later airdates or further distribution. He will discuss publication with client. And he will discuss best edition. We may have to register under special relief.

Exhibit #1, Exhibits to Deposition of Julia Baker Huff ("Huff Dep. Exh."). With respect to this conversation, Ms. Huff testified that it was the practice of the Copyright Office to inquire as to what was the best edition as first published when it received 1/2" videotapes (apparently because videotapes are generally originally produced on 3/4" tapes). Huff Tr. 8-9.[26] She recalled that she and Mr. Yin discussed "the general meaning of

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[26] References to "Huff Tr." refer to transcript pages of her deposition testimony. References to "Yin Tr." similarly refer to transcript pages of his deposition testimony.

publication," and that she probably read him the legal definition.[27] Huff Tr. 11-12, 31. She advised Mr. Yin that the mere broadcast of the Program did not constitute a publication, but only a performance. Huff Tr. 16-17, 32; Huff Dep. Exh. #4 (letter from Mr. Yin recounting their discussion); Huff Dep. Exh. #5 (letter from Ms. Huff to Mr. Yin). They also discussed "an extension of the understanding of publication in the video industry, that it might have been possible that copies were * * * authorized to have been made from the airing of the Program. And then those copies might have been used at a later date somewhere else, either for distribution or for later air dates [by other stations or the same station]." Huff Tr. 33. They did not discuss the distribution of a 3/4" videotape to IAVC in Taiwan; nor did they discuss the fact that the 1/2" tapes were "edited" versions of the 3/4" tape. Huff Tr. 11-12. Mr. Yin's testimony, as well as his handwritten notes and a March 29, 1984 letter to IAVC regarding this conversation, are essentially consistent with Ms. Huff's memorandum and testimony regarding the March 21 discussion. Yin Tr. 7, 9-14, 16, 25-27; Exhibit #2 to Exhibits to Deposition of Ronald L. Yin and Eva C. Young ("Yin Dep. Exh.") (3/19/84 letter); Yin Dep. Exh. #9 and #10 (Mr. Yin's handwritten notes).

In a letter to Mr. Yin dated April 13, 1984, Ms. Huff again questioned the submission of a 1/2 inch videotape, stating

> For registration of a work first published outside the United States, we need a complete copy of the work as first published. If the 1/2 inch copies are the copies as first published in Taiwan, please give us your written confirmation. Otherwise, you should send a copy of each as first

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[27] The Copyright Act is somewhat ambiguous about what constitutes "first publication." 17 U.S.C. § 101 defines "first publication" as the "distribution of copies * * * of a work to the public by sale * * * or by rental, lease or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution * * * constitutes publication." Professor Nimmer notes that "broadcasting per se" does not constitute a publication. 1 *Nimmer* § 4.11[B] at 4-55.

> published. Or, if this is not possible, you may request special relief from the deposit requirements. Such a request should be made in writing to the Chief of the Examining Division and should explain why your client is unable or unwilling to deposit the copies as first published in Taiwan and should explain what copies they have sent instead.

Yin Dep. Exh. #3 (emphasis original).

Mr. Yin subsequently determined from IAVC that the local Taiwan TV stations did not have the authority to tape and rebroadcast the programs.[28] Accordingly, Mr. Yin wrote to Ms. Huff on May 9, 1984:

> I am returning all of the attached Form PA in accordance with your letter of April 13, 1984. Please note that the publication dates have all been changed, and that the nation of publication has also been changed. This is pursuant to our discussion that merely airing of the TV programs in Taiwan constitutes only the performance of the work -- not the publication. In the U.S., the applicant, International Audio-Visual Communication Inc., sells the works in 1/2 inch tape cassettes, copy of which were previously submitted. Thus, the copies previously submitted were the copies first published.[29]

Yin Dep. Exh. #4.

Ms. Huff testified that following receipt of this letter she allowed the applications. Huff Tr. 17. IAVC never requested "special relief" from depositing the 3/4" tape.

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[28] Mr. Yin does not recall if he was ever informed that a 3/4" tape was transferred from the Taiwan TV Station to IAVC in Taiwan, or if he was told that IAVC edits the 3/4" tape in California. Tr. 7.

[29] Notwithstanding this letter, IAVC continued to submit applications stating Taiwan as the nation of first publication, prompting further correspondence between Mr. Yin and Ms. Huff. *See* Ms. Huff's letter to Mr. Yin dated June I, 1984 and Ms. Huff's letter to IAVC dated July 20, 1984 (annexed as exhibits to Ms. Huff's telephonic deposition taken on November 8, 1988).

Defendants' first contention is that Mr. Yin's decision to change the place of first publication was not based upon his learning that the broadcast in Taiwan did not constitute publication. Rather, defendants assert that Mr. Yin knew that the delivery of the 3/4" mastertape to IAVC's Taipei office was itself a publication and that Mr. Yin changed the place of first publication from Taiwan to the United States because he knew that the validity of the FCN Treaty was being challenged in litigation in California,[30] and was concerned that IAVC's entitlement to copyright protection for works first published in Taiwan was threatened. Defendants therefore conclude that Mr. Yin knowingly and deliberately failed to advise the Copyright Office of the delivery of the 3/4" master to IAVC in Taiwan and falsely represented the place of first publication to be the United States. *See* Defendants' Post-Trial Brief at 13-14, 21-27.

I find absolutely no evidence in the record before me to support this allegation.

First, Mr. Yin knew that the Copyright Office had already granted registration to hundreds of tapes that were stated to be first published in Taiwan. Second, it is undisputed that Ms. Huff at no time suggested that the place of publication had any bearing on the acceptance of IAVC's applications. Indeed, but for Ms. Huff's inquiry regarding "best edition," there can be no doubt that Mr. Yin would have continued to submit IAVC applications stating Taiwan as the place of first publication, based upon his erroneous belief that broadcast constituted publication. Moreover, apart from the lack of any showing of fraudulent intent, defendants cannot show that presentation of the full facts, *i.e.* , advising the Copyright Office of the delivery of the 3/4" mastertape to IAVC in Taiwan "might have occasioned a rejection of the application." There is no evidence that the Copyright Office would consider delivery of the 3/4" tape to IAVC in Taiwan to be a publication. Moreover, since the Copyright Office considers the Copyright Act applicable to works

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[30] *Int'l Audio-Visual Communications v. Chen, supra* n.20 and n.5.

first published in Taiwan, the *worst* possible consequence for IAVC would have been that the Copyright Office would insist on the submission of the 3/4" mastertape or an application for special relief. IAVC clearly had no reason whatsoever to fear denial of registration on the basis of the first publication in Taiwan.

Defendants' second contention is that IAVC fraudulently failed to advise the Copyright Office of "the scope of its monopoly." Defendants' Post-Trial Brief at 26. This contention pertains to IAVC's failure to inform the Copyright Office that the programs IAVC sent for registration were edited versions of the programs as broadcast in Taiwan. Here again, defendants have failed to show that the submission of this information would have resulted in rejection of IAVC's applications. Assuming, *arguendo*, that the Copyright Office would consider the edited version a "derivative work," IAVC would at worst be required to register both the edited and unedited versions.

I therefore find that the enforceability of the copyright assigned to plaintiff is not barred by any fraud on the Copyright Office.

CONCLUSION

For the reasons set forth above I find that plaintiff has demonstrated that defendants have infringed plaintiff's valid copyright in the Programs as assignee of IAVC and that defendants' challenges to the validity of the copyright are meritless. I therefore find that plaintiff is entitled to a permanent injunction prohibiting the copying, sale, rental or other distribution of the Programs by defendants. Plaintiff is directed to submit a proposed judgment and permanent injunction on 5 days' notice no later than March 20, 1989. The parties are directed to appear for a status conference on March 27, 1989 at 10:00 a.m. in Courtroom 631 of the United States Courthouse.

SO ORDERED.

DATED: New York, New York March 8, 1989

APPENDIX C

UNITED STATES DISTRICT COURT
For the Southern District of New York

No. 89 Civ. 6082 (RWS) (KAR)

NEW YORK CHINESE TV PROGRAMS, INC.,
Plaintiff-Appellee,

VERSUS

U.E. ENTERPRISES, INC.; FLUSHING STAR, INC.; CHAN'S VIDEO & TRADING, INC.; GONG PICTURES, INC.; DANG'S VIDEO, INC.; PO YUEN, QUEENS VIDEO LTD.; JOHN DOES 1-50,
Defendants.

June 14, 1991

OPINION AND ORDER

KATHLEEN A. ROBERTS, United States Magistrate Judge.

This action for copyright infringement, violations of Section 43(a) of the Lanham Act, unfair competition and interference with contractual relations was filed on June 16, 1988,[1] and thereafter referred to me for all purposes pursuant to 28 U.S.C. § 636(c). In an Opinion and Order dated March 8, 1989, I found that defendants had infringed plaintiff's copyrights to certain Chinese language television programs produced by three Taiwanese television companies, and entered an order enjoining any further infringement. A trial was held on September 27 and 28, 1989, to receive evidence pertaining to plaintiff's damages, which was followed by the submission of post-trial briefs and additional stipulations of fact on March 13, March 23, and

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[1] An Amended Complaint, adding defendants Po Yuen and Dang's Video, Inc., was served on October 31, 1988, and filed on November 10, 1988.

September 14, 1990. At a conference held on May 24, 1990, plaintiff advised the court that it wishes to pursue only its claims and remedies under the Copyright Act, and withdraws all other asserted causes of action without prejudice; at the same conference, defendants agreed to withdraw their counterclaims without prejudice. This Opinion constitutes my findings of fact and conclusions of law, pursuant to Fed. R. Civ. P. 52(a), with respect to plaintiff's damages on its Copyright Act claims.

BACKGROUND

Plaintiff New York Chinese TV Programs, Inc. ("New York Chinese") is a New York corporation engaged in the distribution of Mandarin language videotapes to its authorized sub-licensee retail outlets for rental purposes. Defendants U.E. Enterprises, Inc. ("UE"), Flushing Star, Inc. ("Flushing Star"), Chan's Video and Trading, Inc. ("Chan's Video"), Gong Pictures, Inc. ("Gong Pictures"), and Queens Video, Ltd. ("Queens Video"),[2] are New York corporations engaged primarily in selling and renting Chinese language videotapes. Defendant Dang's Video, Inc. ("Dang's"), is a subsidiary of UE. Defendant Po Yuen is an attorney admitted to practice in New York and, at the time of defendants' infringement of plaintiff's copyrights, was the President and a one-third owner of UE and Dang's Video.

New York Chinese is a licensee of International Audio--Visual Corporation ("IAVC"), a California corporation that is the exclusive authorized distributor in the United States and Canada of Mandarin language television programs ("the Programs") produced by three Taiwanese television companies. The Programs are delivered to IAVC in Taiwan and sent to IAVC's California headquarters where they are edited and copied for distribution in North America with IAVC's copyright notice. Copies of the edited version of each Program have been registered with the United States Copyright Office.

On April 20, 1988, IAVC granted plaintiff an exclusive

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[2] Queens Video has failed to defend the damages phase of this action.

license in New York and New Jersey to distribute and rent videotapes of the Programs to the general public or to selected sub-licensee retail outlets. A copy of the License Agreement is annexed to the Amended Complaint as Exhibit C and was admitted at trial as Plaintiff's Exhibit ("PX") 5. By written assignment executed contemporaneously with the License Agreement and recorded in the United States Copyright Office on or about June 10, 1988, IAVC assigned to New York Chinese: (i) the right, title, and interest in and to the copyrights in New York and New Jersey of programs created on or after March 1, 1988, and the right to commence and maintain actions for infringement of the copyrights in such programs; (ii) the right to commence and maintain actions for infringement of programs created on or before February 29, 1988; and (iii) all proceeds from judgments obtained with respect to any infringement of the copyrights in New York and New Jersey. A copy of the Assignment is annexed to the Amended Complaint as Exhibit B; *see also License Agreement* ¶ 10. New York Chinese and IAVC subsequently placed numerous advertisements in Chinese language newspapers and on Chinese language radio stations identifying New York Chinese as the only authorized distributor of the Programs in New York and New Jersey.

On or about May 3, 1988, plaintiff determined that defendants UE, Flushing Star, Chan's Video, Gong Pictures, and Queens Video (none of which is an authorized sub-licensee of New York Chinese) were renting videotapes of the Programs to the public. It was ultimately discovered that the videotapes of the Programs distributed by defendants had been copied by a "source" in Taiwan directly off the Taiwanese airwaves (deleting commercials), and shipped to Dang's in the United States in boxes marked "gift";[3] Dang's in turn copied and supplied the tapes to UE and to the other defendants for distribution to the public. UE, Dang's, Po Yeun and Queens Video admitted importing, copying and/or distributing copies of the Programs

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[3] One of the boxes in which Dang's received tapes from Taiwan was submitted at the damages trial as PX 11.

with knowledge of plaintiff's claim to ownership of the copyright,[4] and the other defendants acknowledged distributing the Dang's/UE tapes. Defendants, however, challenged plaintiff's claim of copyright infringement on several legal grounds, each of which was rejected in my March 8, 1989 Opinion and Order.

THE APPLICABLE LAW

The Copyright Act of 1976 entitles a copyright owner to choose between statutory damages, as provided under 17 U.S.C. § 504(c), or the "actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. § 504(b).

The legislative history of the Act explains that section 504(b)

> recognizes the different purposes served by awards of damages and profits. Damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act. Where the defendant's profits are nothing more than a measure of the damages suffered by the copyright owner, it would be inappropriate to award damages and profits cumulatively, since in effect they amount to the same thing. However, in cases where the copyright owner has suffered damages not reflected in the infringer's profits, or where there have been profits attributable to the copyrighted work but not used as a measure of damages, subsection (b) authorizes the award of both.

H.R. No. 1476, 94th Cong., 2d Sess. 161, *reprinted in* 1976 U.S. Code & Admin. News 5659, 5777 ("House Report").

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[4] UE had attempted to negotiate an agreement with IAVC to be the exclusive distributor for the IAVC tapes. Only after the negotiations failed did UE discuss the prospect of getting the tapes directly from a source in Taiwan. Deposition of UE President Jack Ho (PX 12) at 34-35, 52.

Actual Damages and Infringer's Profits

In general, the copyright owner's actual damages are equal to the profits he would have accrued but for the defendant's infringement 3 M. Nimmer, *Nimmer on Copyright* § 14.02[A] at 14-7 to 14-8 (1990) ("*Nimmer*"); *see Lauratex Textile Corp. v. Allton Knitting Mills, Inc.*, 519 F. Supp. 730, 733 (S.D.N.Y. 1981). The court's inquiry on the issue of actual damages focuses on "what sales probably would have been made without the infringement." *Stevens Linen Assocs., Inc. v. Mastercraft Corp.*, 656 F.2d 11, 15 (2d Cir. 1981); *see also Fitzgerald Publishing Co. v. Baylor Publishing Co.*, 807 F.2d 1110, 1118 (2d Cir. 1986) ("the primary measure of recovery is the extent to which the market value of the copyrighted work at the time of the infringement has been injured or destroyed by the infringement"). To make this determination, the court must "necessarily engage in some degree of speculation." *Stevens Linen*, 656 F.2d at 14. For instance, where there is a disparity in price between the infringed and the infringing products, the court may assume that the copyright owner would not have sold the same amount of goods as was sold by the infringer. *Id.* 14-15; *Lauratex*, 519 F. Supp. at 733. Further, the fact that the infringer made no profit does not preclude the copyright owner from recovering actual damages. *Fitzgerald Publishing*, 807 F.2d at 1118.

Although § 504(b) allows the recovery of actual damages and the infringer's profits, it expressly bars double counting of these amounts. *Abeshouse v. Ultragraphics, Inc.*, 754 F.2d 467, 469-70 (2d Cir. 1985). Thus, to the extent that the copyright owner's lost profits are a component of the actual damages, the court must deduct them from the infringer's profits. 3 *Nimmer* § 14.01[A] at 14-5.

To allow the court to compute the infringer's profits, the copyright owner must show evidence of the infringer's gross revenues; the infringer then has the burden of proving deductible expenses. 17 U.S.C. § 504(b); *see Sygma Photo News, Inc. v. High Soc'y Magazine, Inc.*, 778 F.2d 89, 91 (2d Cir. 1985); *Abeshouse*, 754 F.2d at 470. The infringer may deduct only

those expenses that he can show relate specifically to the infringing work. 3 *Nimmer* § 14.03[B] at 14-18. For example, overhead that is not directly attributable to the production of the infringing goods may not be subtracted from the infringer's profits. *Gaste v. Kaiserman*, 863 F.2d 1061, 1071 (2d Cir. 1988); *Taylor v. Meirick*, 712 F.2d 1112, 1121 (7th Cir. 1983). Nor may the infringer deduct expenses incurred to conceal the infringement. *Sygma*, 778 F.2d at 93. Moreover, "[w]hen a defendant infringer's own failure to keep records results in uncertainty, all doubt must be resolved in favor of the plaintiff." *Gaste*, 863 F.2d at 1070-71; *see Sygma*, 778 F.2d at 95 (court should err on the side of guaranteeing plaintiff full recovery).

Statutory Damages

The copyright owner may elect to recover statutory damages "at any time during the trial before the court has rendered its final judgment." House Report at 162; *see* 17 U.S.C. § 504(c)(1); *Glazier v. First Media Corp.*, 532 F. Supp. 63, 67-68 (D. Del. 1982) (before entry of judgment, plaintiff was required to choose either verdict of jury as to actual damages and profits -- a legal remedy -- or court's award of statutory damages -- an equitable remedy). The provision for statutory damages serves a dual purpose -- to compensate copyright owners and to deter potential infringers. *Fitzgerald Publishing*, 807 F.2d at 1117; *Lauratex*, 519 F. Supp. at 733. The election of statutory damages precludes not only the recovery of actual damages, but also of the infringer's profits. 3 *Nimmer* § 14.01 [B] at 14-6.

Under § 504(c) (1), the court must award from $250 to $10,000, "as the court considers just," for each work infringed. The House Report explains: "A single infringer of a single work is liable for a single amount between $250 and $10,000, no matter how many acts of infringement are involved in the action * * * . Where the suit involves infringement of more than one separate and independent work, minimum statutory damages for each work must be awarded." House Report at 162. Under § 504(c)(2), the court has discretion to increase the award to $50,000 where it finds that the infringement was committed

"willfully"; conversely, it may reduce the award to $100 for an infringement committed innocently.[5] For purposes of enhancing statutory damages, a defendant has acted willfully within the meaning of § 504(c) (2) when he has knowledge that his actions constituted infringement. *Fitzgerald Publishing*, 807 F.2d at 1115; 3 *Nimmer* § 14.04[B][3] at 14-40.3 to 14-40.4. The court may infer such knowledge. *See Fallaci v. New Gazette Literary Corp.*, 568 F. Supp. 1172, 1173 (S.D.N.Y. 1983); *Lauratex*, 519 F. Supp. at 733.

In general, statutory damages are appropriate where the measure of actual damages is difficult to prove. *Lauratex*, 519 F. Supp at 732. Statutory damages serve to compensate copyright owners and to provide a deterrent for potential infringers. *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 592 F.2d 651, 657 (2d Cir. 1978). Indeed, "courts have repeatedly emphasized that defendants must not be able to sneer in the face of copyright owners and copyright laws. Rather defendants must 'be put on notice that it costs less to obey the copyright laws than to violate them.'" *International Korwin Corp. v. Kowalczyk*, 665 F. Supp. 652, 659 (N.D. Ill. 1987) (quoting *Music City Music v. Alfa Foods, Ltd.*, 616 F. Supp. 1001, 1003 (E.D. Va. 1985)), *aff'd*, 855 F.2d 375 (7th Cir. 1988).

Within these broad guidelines, among the factors the court may consider in determining statutory damages are the expenses saved and the profits reaped by the infringer, the revenues lost by the plaintiff, the value of the copyright, whether the defendant has supplied adequate records to assess the value of the infringing material produced, and the deterrent effect of the award on the defendant and other potential infringers. *Fitzgerald Publishing*, 807 F.2d at 1117.

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[5] For infringements committed after March 1, 1989, the effective date of the Berne Convention, all of the amounts provided in § 504 are doubled. *See* 17 U.S.C. § 504(c); 3 Nimmer § 14.04[B][1][b] at 14-39 to 14-40. This revision to the statute does not apply in the instant case because all infringements occurred prior to June 20, 1988.

THE EVIDENCE PERTAINING TO DAMAGES

Based upon the Dang's "Masters Received Record,"[6] Dang's invoices to the UE and non-UE retail stores,[7] and the Flushing Star and UE Video program lists,[8] plaintiff alleges that defendants imported and/or distributed illegal copies of 130 programs for which plaintiff has submitted certificates of registration.[9] The titles of the programs infringed by each defendant are listed in Plaintiff's Summary Chart A (submitted with Plaintiff's Post-Trial Memorandum of Law ("Pl. Memorandum")). Plaintiff seeks to recover the lost profits of IAVC and New York Chinese as well as defendants' profits on the infringing tapes from January 1987 through June 20, 1988.[10]

Defendants contend that neither IAVC nor New York Chinese suffered any actual lost sales because the defendants would not have been willing to pay the fees charged by IAVC or New York Chinese. Defendants also assert that they themselves made no profits from the sale and/or rental of the infringing tapes because there was an extremely limited market for Mandarin language tapes during the period at issue. *See* Defendants' Post-Trial Brief on Damages ("Def. Br.") 3, 22. Defendants contend that they distributed the infringing tapes at a substantial loss as part of a "promotional program" and that they derived most of their revenue from sales and rentals of Cantonese language tapes, for which there existed a much larger market. Def. Br. at 20-21.

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[6] Defendants' Exhibit ("DX") B.

[7] PX 1.

[8] PX 2, 3, respectively.

[9] PX 4 (certificates of registration).

[10] On June 20, 1988, Judge Walker entered a Temporary Restraining Order, which was extended by consent until the entry of a permanent injunction on March 8, 1989.

Plaintiff's Lost Profits

Plaintiff seeks recovery of lost profits for two distinct infringing periods: (1) from January 1987 until April 20, 1988, during which time IAVC was the exclusive distributor of the tapes; and (2) from April 20, 1988 to June 20, 1988, during which time New York Chinese held the right as IAVC's assignee to distribute the tapes in New York and New Jersey. Plaintiff contends that all of the sales made by Dang's to the UE and non-UE retail stores in the New York area[11] between January 1987 and June 20, 1988, were sales that would otherwise have been made by IAVC or New York Chinese.

The parties have stipulated that between January 1987 and April 20, 1988, Dang's copied and distributed 50,162 infringing tapes, and that 47,527 of these tapes are protected by copyright registrations introduced at trial by plaintiff; between April 20 and June 20, 1988, Dang's copied and distributed 10,929 infringing tapes, of which 10,272 are protected by copyright registrations introduced at trial. Letter to the Court dated September 14, 1990 ("September 14 Letter"), at 1.

With respect to the number of tapes distributed by Dang's to the UE retail stores, the parties have stipulated that between January 1987 and April 20, 1988, Dang's distributed 47,721 infringing tapes to the UE retail stores, and that 45,274 of these tapes are protected by copyright registrations introduced at the damages trial; between April 20 and June 20, 1988, Dang's distributed 9,918 infringing tapes to the UE retail stores, of which 9,313 are protected by copyright registrations introduced at the damages trial. September 14 Letter at 1-2.

With respect to the number of tapes distributed by Dang's to the non-UE defendants, the parties have stipulated as follows:

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[11] These include sales to defendants UE, Gong Pictures, Flushing Star, Queens Video, and Chan's Video, as well as non-defendants Tasi's Oriental Import, Inc., Jing Jing Video, Inc., Tempo Video, Inc., Queens Public Library, Oriental Marketing, Inc., 8th Avenue Store Corp., and Review Electronics. See PX 1.

	Tapes Distributed By Dang's	Tapes with IAVC registration Introduced at Trial
Flushing Star	1,117 (927/190)[12]	1,039 (863/176)
Queens Video	909 (758/151)	849 (708/141)
Chan's Video	77 (50/27)	77 (50/27)
Gong Pictures	60 (0/60)	55 (0/55)
	2,163 (1,735/428)	2,020 (1,621/399)

September 14 Letter at 2. Dang's distributed to all non-UE retail stores (defendants as well as non-defendants) a total of 3,212 (2,253/959) tapes for which copyright registrations were introduced at the damages trial. *See* September 14 Letter (total distributed by Dang's minus total purchased by UE retail stores).

In order to establish the amount of its lost profits on sales by Dang's, plaintiff offered the testimony of Eva Young, the treasurer of IAVC. She testified that prior to April 20, 1988, IAVC distributed Taiwan TV tapes in New York and New Jersey by a nonexclusive license agreement,[13] charging $17 for each tape.[14] Tr. 38-39. Customers with a lease agreement with IAVC for one year who returned old tapes for redubbing received a $5.00 credit against the $17.00 charge. Tr. 40.

Plaintiff offered no documentary evidence of IAVC's expenses. Tr. 43, 49. Young testified, however, that based upon her analysis of IAVC's records, IAVC incurred the following costs for each $17.00 tape: blank tape ($4.00); labeling and shipping supplies ($.02);[15] customer returns and defects ($.25). Tr. 40, 47-48. She therefore calculated IAVC's profit

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[12] The numbers in parentheses represent sales prior to/after April 20, 1988.

[13] A copy of the standard licensing agreement used by IAVC prior to April 20, 1988, was received at the damages trial as PX 7.

[14] IAVC's sales reports for January 1986 through May 1988 were received at the damages trial as PX 10.

[15] The shipping costs are paid by IAVC's customers. Tr. 43-44.

as $12.73 per tape. Tr. 48, 50. Young testified that approximately 18% of IAVC's tapes were subject to the $5 credit arrangement, for which IAVC incurred only packaging and redubbing costs of $.42, leaving a profit of $11.58. Tr. 40-41, 50-53. Combining both types of pricing, Young computed IAVC's average profit as approximately $12.50 per tape. Tr. 40-41, 50-51. On cross-examination Young described a third pricing option in which IAVC charged $17 per tape for the first three tapes and $10 per tape for the fourth and subsequent tapes. Young testified that the expenses on a $10 tape were the same as those for a $17 tape, and that less than 10% of IAVC's tapes were distributed at the $10 rate. Tr. 53-54. Counsel for plaintiff acknowledged that IAVC realized a lower profit on the $10 tapes, which would reduce the $12.50 average profit per tape, and agreed for purposes of this proceeding to use an average profit figure of only $11.80.[16] Pl. Memorandum at 6-8.

Young did not include in her calculations the cost of royalties paid by IAVC to Taiwan TV (which she testified amount to only a few cents per tape), because no additional royalty payments would have been required for the sales allegedly diverted by Dang's. Tr. 41-42; 49-50. Similarly, Young did not include any labor or overhead expenses, because no additional labor or overhead expenses would have been incurred to generate the sales made by Dang's. *See* Tr. 44.[17] Multiplying the total number of tapes distributed by Dang's between January 1987 and April 20, 1988, for which plaintiff has submitted copyright registrations (47,527) by an average per tape profit of $11.80, results in total lost profits of $560,818.60.

New York Chinese president Dick Ying testified that since

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[16] This calculation assumes a profit of $12.73 on 72% of the tapes sold, $11.58 on 18% of the tapes sold and $5.73 on 10% of the tapes sold.

[17] Young testified that IAVC's capacity is about 28,000 tapes per month and that there is additional overhead only if the company produces more than that number of tapes. Tr. 44.

April 20, 1988, New York Chinese has distributed the Taiwan TV program tapes through sublicensees, who paid New York Chinese $5,000 per month in 1988-1989 and $6,000 per month in 1989-1990. Tr. 9-10.[18] Plaintiff contends that its lost profits for the period April 20, 1988 to June 20, 1988, are $10,000 ($5,000 per month) for each of the retail outlets supplied by Dang's, *i.e.*, the seven (7) UE stores and the four (4) defendant non-UE stores, which totals $110,000. Subsequent to the damages trial, however, plaintiff's counsel acknowledged that this figure actually represents plaintiff's gross receipts, not its profits, plaintiff's counsel also acknowledged that plaintiff offered no evidence of its expenses during this period.

Also relevant on the issue of plaintiff's lost profits are the IAVC sales records for January 1986 through April 1988. PX 10. These records show that IAVC sold approximately 428 fewer tapes per month in the New York area between January 1987 and April 1988 than it had in the twelve months preceding defendants' commencement of infringement.[19] At an average per-tape profit of $11.80, this represents lost profits totalling $80,806.40 (428 X 16 months X $11.80) for January 1987 through April 1988 and projected lost profits of $10,100.80 (428 X 2 months X $11.80) for May and June 1988.[20]

Defendants' Profits

Dang's invoiced the UE retail stores $6.00 per tape, and

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[18] Plaintiff's sublicense agreements with 16 stores for 1988-1989 and 1989 to the date of the damages trial were received into evidence as PX 6.

[19] The drop in monthly sales is calculated by dividing the total number of tapes sold in 1986 by twelve (20,860/12 = 1738) and subtracting the quotient of the total number of tapes sold in 1987 and through April 1988 divided by sixteen (the number of months of infringing activity) (20,970/16 = 1310) (1738 - 1310 = 428). During a post-hearing conference, counsel for plaintiff and defendants agreed that the court's calculations from the IAVC sales records are substantially correct.

[20] IAVC made no actual sales in New York after its agreement with New York Chinese on April 20, 1988.

invoiced all other retailers an average of $12.75 per tape. PX 1; Tr. 132.[21] Each Dang's tape contained four episodes in contrast to the two episodes offered on the IAVC tapes (usually sold for $17 or $12). Tr. 16-17, 81. Apart from the Dang's invoices and records of payments to Dang's by the non-UE retail stores (PX 9),[22] the only documentary evidence of defendants' receipts and expenses consists of two (2) consolidated financial statements for Dang's and the UE retail stores, entitled "UE ENTERPRISES, INC. General Ledger INCOME STATEMENT," for the six-month period ending June 30, 1988 (PX 18) and the twelve-month period ending December 31, 1988 (PX 19). These statements do not provide a separate accounting of income and expenses for Dang's and the UE retail stores; nor do they provide a separate accounting of income and expenses attributable to the distribution of Mandarin and Cantonese tapes.[23]

Dang's

According to UE's President Jack Ho, Dang's incurred costs totalling $6.35 for each infringing tape: $3.50 (blank tape); $.25 (video sleeve); $.15 (spine label); $.05 (warning label); $2.00 (production and duplication); $.40 (fee to source) (corroborated by PX 17 showing total payments to "Aips", a Taiwan source,

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[21] Approximately 25% of the infringing tapes were sold to Queens Video for $12.00; with a few exceptions, the remaining tapes were sold for $13.00. *See* PX 1.

[22] The parties have stipulated that Dang's received $32,794.15 from the sale of infringing tapes to all non-UE stores (defendants as well as non-defendants) from January 1987 through April 20, 1988, and $7,086.85 from sales between April 20 and June 20, 1988. September 14 Letter at 2; PX 9. There are no records reflecting payments to Dang's by the UE retail stores.

[23] UE's accountant testified at trial that the statements pertained to "all" UE tape rentals, but testified at her deposition that the income and expenses reflected on the statements were attributable solely to UE's distribution of Cantonese tapes. Tr. 169-73.

of $22,553).[24] Tr. 85-86. Ho testified that these costs were paid by UE even though they were Dang's expenses. Tr. 104. These costs result in an average profit of $6.40 on tapes sold to the non-UE stores, and a $.35 *loss* on tapes sold to UE. Defendants concede however, that the UE retail stores recycled tapes (costing $3.50). Tr. 108-10. Dang's profit was therefore approximately $3.15 per tape on sales to the UE retail stores.

Based upon Ho's testimony, Dang's realized profits for the period January 1, 1987 through April 20, 1988, of $142,613.10 ($3.15 x 45,274) on sales to the UE retail stores, and $14,419.20 ($6.40 x 2,253) on sales to the non-UE retail stores (defendants and non-defendants) (totalling $157,032.30). Between April 20 and June 20, 1988, Dang's realized profits of $29,335.95 ($3.15 x 9,313) on sales to the UE retail stores and $6,137.60 ($6.40 x 959) on sales to the non-UE retail stores (totalling $35,473.55).

Retail Defendants

The only documentary evidence of record pertaining specifically to the retail defendants are the invoices issued by Dang's and Dang's records of payments received from the non-UE defendants. *See* PX 1 and PX 9.

In order to estimate the gross receipts of the retail defendants, the parties offered testimony and some documentary evidence regarding the rental charge for each infringing tape and the "opinion" testimony of plaintiff's president, Dick Ying, and UE's president, Jack Ho, regarding the number of times a Taiwan TV tape was usually rented.[25] *See* Tr. 4. The parties agreed that the court would then determine the defendants' gross

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[24] Other than a handwritten record of payments to Alps (PX 17) and the UE Income Statements (PX 18, 19), which do not distinguish between UE and Dang's, defendants produced no documentary evidence of Dang's expenses. *See* Tr. 106-13, Tr. 174-80.

[25] The parties have agreed that Ho's testimony regarding the rental fee and average number of times a tape is rented also applies to the non-UE defendants.

receipts by deciding whose testimony was most credible and then multiplying the rental charge by the average number of times each tape was rented.

As to the price charged to defendants' retail customers, the parties stipulated that, on May 3, 1988, an infringing tape was rented to plaintiff's investigator as a "nonmember" at each of the seven retail stores operated by UE, for $3.00 plus a $50 deposit. Tr. 62-63; PX 8 (receipts given to plaintiff's investigator). It is undisputed, however, that almost all of the infringing tapes (each containing four episodes) were rented to "members" for $2.00. Tr. 102-03; *see also* Tr. 98-99 (deposition testimony).

Ho testified that each infringing tape was rented "about twice." Tr. 85. Ho's testimony therefore suggests that the UE retail stores lost $2.00 per tape ($6.00 less $4.00 for two rentals), and that the non-UE defendants lost $8.00 or $9.00 per tape ($12.00 or $13.00 less $4.00 for two rentals).

Ying testified that IAVC tapes (containing two episodes) were rented to members at a price of $100 for 100 tapes ($1.00 per tape). Tr. 10, 16-17. Ying testified that each IAVC Mandarin TV tape has a "life" of from 3 to 5 months and is rented an average of 15 times during that period. Tr. 13, 15. Ying's testimony suggests that prior to April 20, 1988, IAVC licensees lost $2.00 on each $17.00 tape and realized a $3.00 profit on each $12.00 tape. *See* Tr. 15-17.

DISCUSSION

I. Identification of Works Infringed

In order to establish which infringing tapes were imported and distributed by Dang's or rented by the retail defendants, plaintiff submitted Dang's invoices (PX 1), and program lists distributed by the UE retail stores (PX 3) and by Flushing Star (PX 2) (all by program title and in Chinese). *See also* DX B (Dang's "Masters Received Record"). A total of 130 program titles for which plaintiff has submitted copyright registrations appear on these documents. *See* Plaintiff's Summary Chart B.

Defendants argue that plaintiff has failed to prove that any of the tapes distributed by defendants are actually copies of the registered works, asserting that "mere comparison or matching of titles is not sufficient to support a finding of copyright infringement." Def. Br. at 5-6, 11 n.6; Defendants' Reply to Plaintiff's Post-Trial Memorandum of Law ("Def. Reply") at 16. Accordingly, they argue that the court may not award any damages, either actual or statutory. I find that defendants are precluded from raising this issue by a stipulation offered during the liability phase of this action, and that their argument is in any event meritless.

In order to spare the court and counsel the burden of a program-by-program comparison of the registered and allegedly infringing tapes, all parties agreed during the liability trial to submit a representative sample of an IAVC tape and a tape of the same title distributed by defendants, and stipulated that the relationship between the other allegedly infringing tapes and the IAVC tapes of the same title was essentially the same. Plaintiff was entitled to rely upon this agreement for purposes of establishing its damages -- especially since defendants failed to identify this issue in their proposed findings of fact and conclusions of law with respect to damages, or otherwise advise plaintiff prior to or during the damages trial that they intended to raise this issue. In any event, based upon all of the evidence presented to the court during both the liability and damages phases of this action regarding the manner in which defendants copied and distributed the Taiwan TV programs, I find that plaintiff's submission of defendants' invoices and program lists containing titles identical to the registered programs establishes by a preponderance of the evidence that defendants in fact distributed copies of the registered works of the same title.

II. Plaintiff's Lost Profits

Plaintiff contends that all of the sales made by Dang's to the UE and non-UE retail stores in the New York area between January 1987 and June 20, 1988, were sales that would otherwise have been made by IAVC or New York Chinese. *See supra*

pages 11 to 15. This contention ignores the substantial price disparity between the IAVC and Dang's tapes. *See Stevens Linen*, 656 F.2d at 14. The IAVC tapes, containing two episodes, were sold to retailers for either $17 or $12 -- a per-episode price of $8.50 and $6.00, respectively. By contrast, the Dang's tapes, containing four episodes, were sold to non-UE retail stores at an average per-episode price of $3.19 ($12.75/4), and to the UE retail stores (constituting nearly 95% of Dang's sales) at a per-episode price of $1.50 ($6.00/4). Given this disparity, it is inconceivable that all of the sales made by Dang's would, but for the defendants' infringing activity, have been made by IAVC between January 1, 1987, and April 20, 1988. For substantially the same reason, I cannot accept plaintiff's contention that each of the retail stores supplied by Dang's would have been willing or financially able to pay a $5,000 per-month license fee to New York Chinese in May and June 1988.[26]

On the other hand, defendants' assertion that plaintiff has failed to offer *any* evidence of lost sales (Def. Br. at 22-26; Def. Reply at 20-21) must also be rejected. The IAVC sales records reflect a substantial drop in sales following the commencement of infringement -- a period in which sales could in fact be expected to *increase* in what defendants acknowledge was an expanding mar-ket for Mandarin tapes. *See* Tr. 164-65. At a minimum, this drop in sales can reasonably be attributed to defendants' infringing activity. Accordingly, I find that plaintiff has demonstrated actual lost sales as a result of defendants' infringement of its copyrights of at least 428 tapes per month for the period January 1987 through June 1988 (7,704 tapes). *See supra* page 16. I fur-ther find, based upon the credible testimony of IAVC's treasurer, Eva Young, *see supra* pages 13-14, that IAVC would have realized an average per-tape profit of $11.80 on these lost sales, resulting in lost profits totalling $90,907.20. *See supra* page 16.

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[26] The IAVC sales records reflect that Queens Video and Gong's Pictures never bought more than $2,550 worth of video from IAVC in any month.

There is no doubt that plaintiff suffered greater lost profits as a result of defendants' infringing activity than these calculations reflect, especially since defendants concede there was a growing market for Mandarin tapes. Nevertheless, in the absence of some additional direct evidence of plaintiff's lost sales, I find that any larger assessment of lost profits would be unduly speculative.

III. Defendants' Profits

As set forth above, *supra* pages 17-18, I find that based on Jack Ho's own testimony, Dang's realized profits of at least $192,505.85 during the infringing period. Plaintiff is entitled to recover defendants' profits, to the extent they are not taken into account in computing plaintiff's lost profits. *See* 17 U.S.C. § 504(b). I therefore find that plaintiff may recover Dang's profits in the amount of $101,598.65.

The evidence of record with respect to the receipts and expenses of the retail stores is largely testimonial and contradictory as to some crucial facts. *See supra* pages 18-20. It is essentially undisputed that the infringing tapes were generally rented for $2.00 per tape. The testimony regarding the average number of times each infringing tape was rented, however, is sharply disputed.

Plaintiff's Dick Ying testified that in his experience each IAVC tape was rented at least 15 times. I find this testimony credible. The IAVC sales records demonstrate that a broad market existed in the New York area for tapes at IAVC's prices. Indeed, several of the non-UE defendants in this action regularly purchased tapes from IAVC prior to January 1987, and some even purchased tapes from IAVC during the infringing period. *See* PX 10. Clearly, these retail stores continued to deal with IAVC because it was economically profitable to do so. Since IAVC tapes sold for at least $12, and were rented for $1, it would, as Ying testified, take at least 15 rentals per tape to recover basic costs.

Ho testified that in his experience each infringing tape was

rented only twice, resulting in a per tape loss of $8 or $9 for non-UE retail stores, which purchased the tapes from Dang's for $12 or $13, and a per-tape loss of $2 for the UE retail stores, which purchased the tapes from Dang's for $6.00. Tr. 85, 127. This is simply incredible.[27]

I find that each infringing tape was rented an average of 15 times by the non-UE retail stores at a rental price of approximately $2.00, resulting in gross receipts of $30. Deducting the $12 or $13 charged by Dang's for each tape, *see supra* note 21, I find that the non-UE retail stores realized a profit of $17 or $18 on each infringing tape.[28] As set forth above, *supra* pages 12-13, defendant Flushing Star received a total of 1,039 infringing tapes, Queens Video a total of 849 infringing tapes, Chan's video a total of 77 infringing tapes, and Gong Pictures a total of 55 infringing tapes. I therefore find that the non-UE defendants realized retail profits as follows: Flushing Star: $17,663 (1,039 x $17); Queens Video: $15,282 (849 x $18); Chan's Video: $1,309 (77 x $17); Gong Pictures: $935 (55 x $17).

The determination of the profits realized by the UE retail stores is considerably more difficult because, in contrast to the non-UE retail defendants, it appears that Dang's sales to the UE retail stores dramatically increased the number of copies of each Taiwan TV program available for rental in the market. This undoubtedly resulted in a decreased number of rentals for each tape at UE stores. I agree with plaintiff that a conservative estimate of this decrease is a 50% reduction in the number of rentals, which results in average gross receipts of $15 per tape

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[27] Notably, when questioned at his deposition, Ho was unable to provide a figure for the number of times each title was usually rented. *See* Tr. 128-30. Moreover, other than Ho's testimony regarding the number of times an infringing tape was rented, defendants offered no evidence at trial to support their assertion that Mandarin tapes were rented only as "lost [sic] leaders." *See* Def. Br. at 21.

[28] This figure is to some extent inflated due to the non-UE defendants' failure to introduce any evidence of their expenses other than the cost of the Dang's tape.

(15/2 X $2), and (deducting the $6 paid to Dang's for each tape) a per-tape profit of $9.[29] As set forth above, *supra* page 12, the parties have stipulated that the UE retail stores received a total of 54,587 tapes for which copyright registrations were introduced by plaintiff at trial. I therefore find that UE's retail profits from the rental of the infringing tapes totalled $491,283.

IV. Statutory Damages and Attorney's Fees

Defendants assert that plaintiff is barred from seeking statutory damages or attorney's fees by section 412 of the Copyright Act, which provides:

> In any action under this title, other than an action instituted under section 411(b), no award of statutory damages or of attorney's fees, as provided by sections 504 and 505, shall be made for --
>
> (1) any infringement of copyright in an unpublished work commenced before the effective date of its registration; or
>
> (2) any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work.

17 U.S.C. § 412.[30]

Commencement of Infringement

Defendants contend that the commencement of infringement

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[29] This figure, like the per-tape profit of the non-UE defendants, is to some extent inflated because the UE retail defendants failed to introduce any evidence of their expenses that could be attributed to the rental of Mandarin tapes other than the amount charged by Dang's.

[30] Actions commenced under § 411(b) are excepted from § 412; plaintiff, however, concedes that § 411(b) has no application to this case. *See* Plaintiff's Reply Memorandum of Law at 9 n.*.

for all of the 130 programs at issue[31] was in early December 1986,[32] when UE president and defendant Po Yuen instructed his employee Ann Chan to contact the source of the tapes in Taiwan and have the source provide the tapes to Dang's/UE on a continuing basis. Def. Br. at 7-10; Def. Reply at 4-13; *see also* Tr. 145-47. Defendants therefore argue that plaintiff is precluded by § 412(1) from recovering statutory damages or attorney fees with respect to any works first published[33] after November 30, 1986.[34]

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[31] Plaintiff has introduced copyright registrations for 130 Taiwan TV programs. *See supra* note 9 and accompanying text. The additional 78 titles discussed in Def. Br. (at 11) are irrelevant for purposes of determining damages.

[32] The earliest date on the Dang's Masters Received Record is December 10, 1986 (Nos. 12, 37, 57, 97 and 128).

[33] Defendants contend in their submission on damages that the infringed works were first published in the United States. During the liability phase of this trial, however, they contended that the tapes were first published in Taiwan. This court did not reach the issue of the place of first publication in its decision on liability. *See* Opinion and Order dated March 8, 1989 at 18. If in fact the Programs were first published in Taiwan, the court would be able to award substantially greater statutory damages against defendants. Plaintiff therefore suggests that defendants should be "judicially estopped" from taking inconsistent positions on this issue. *See* Pl. Memorandum at 16-19. Several commentators and courts have pointed out that the doctrine of judicial estoppel, or "preclusion against inconsistent positions" is "disfavored" and "conflicts with liberal federal approaches to proceedings prior to judgment, which favor, for example, alternative pleading and liberality in granting permission to change positions." *David v. Showtime/The Movie Channel Inc.*, 697 F. Supp. 752, 762-63 (S.D.N.Y. 1988) (citing 1B J. Moore, J. Lucas & T. Currier, *Moore's Federal Practice* ¶ 0.405[8] at 243 (2d ed. 1988)). In light of the fact that plaintiff agrees that the Programs were first published in the United States, and has not been prejudiced by defendants' assertion of inconsistent positions, I find that this is not an appropriate case for application of the doctrine. I do, however, consider defendants' about-face on this issue in assessing the willfulness of their actions. *See infra* note 40 and accompanying text.

[34] The publication date of 22 programs precedes December 1, 1986: 1,

The purpose of § 412 is to encourage timely copyright registration. *See* House Report at 158; *see also* 2 *Nimmer* § 7.16[C] at 7-169 ("Section 412 represents a powerful incentive to register"). The House Report states that "copyright registration for published works, which is useful and important to users and the public at large, * * * should * * * be induced in some practical way." With respect to unpublished works, the Report states that "the remedies for infringement presently available at common law should continue to apply to these works under the statute, but they should not be given special statutory remedies unless the owner has, by registration, made a public record of his copyright claim." House Report at 158. Further, the House Report notes that the three-month grace period during which the copyright owner of a published work may register without loss of remedies was provided "to take care of newsworthy or suddenly popular works which may be infringed almost as soon as they are published, before the copyright owner has had a reasonable opportunity to register his claim." *Id.*

In support of their argument that Po Yuen's December 1986 instruction to Ann Chan constituted the commencement of infringement, defendants rely upon two cases in which courts have found authorization to constitute commencement of infringement. In *Peter Starr Production Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440 (9th Cir. 1986), a case concerning the court's subject matter jurisdiction over a copyright action, the defendant had signed a contract in the United States authorizing a motion picture company to exhibit plaintiff's copyrighted film outside of the United States. The court found that the execution of the contract illegally authorizing the use of the film might constitute an act of infringement in the United States, sufficient to confer subject matter jurisdiction on the court. *Id.* at 1443.

In *Thomas v. Pansy Ellen Prods., Inc.*, 672 F. Supp. 237

3, 26, 28, 29, 37, 39, 43, 45, 47, 58, 62, 64, 65, 74, 77, 85, 88, 102, 112, 121, and 128. For various other reasons discussed *infra*, defendants concede the availability of statutory damages on only three of these programs (37, 121 and 128).

(W.D.N.C. 1987), the defendant's agent sent a letter from the United States to a Taiwan manufacturer, authorizing it to make "a few samples" of products bearing plaintiff's copyrighted design. *Id.* at 241, 242 n.3. The court found that this act constituted the commencement of infringement and precluded the plaintiff from recovering statutory damages and attorney's fees under 17 U.S.C. § 412(1), because the authorization occurred before the plaintiff registered her copyright in the design. *Id.* at 241-42.

Both of these cases involve the authorization to exhibit or copy a specific copyrighted work in existence at the time of the authorization. By contrast, Po Yuen issued a blanket authorization to import and copy any and all Programs illegally copied by the "source," including Programs that would not even come into existence until long after his December 1986 authorization. This construction of § 412 is simply untenable. I therefore find that commencement of infringement is the date of importation, which has been established for 95 of the Programs by the Dang's Masters Received Record.[35]

Application of § 412

The parties have stipulated that Plaintiff's Summary Chart B accurately sets forth the following evidence of record for each of the 130 programs at issue: 1) when Dang's first received the tape (for those tapes listed on the Dang's Masters Received Record); 2) the earliest Dang's invoice; 3) the date of first publication (as stated on the copyright registration); and 4) the effective date of registration.

I find that plaintiff may recover statutory damages for the

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[35] The commencement of infringement by the retail defendants is arguably later, e.g., the date of the earliest Dang's invoice for a particular Program. I find it unnecessary to decide this issue because plaintiff may recover sufficient statutory damages using importation as the commencement of infringement by all defendants to establish whether plaintiff is barred from receiving statutory damages for any particular work.

following 16 programs because both the Dang's received date and first invoice date are after publication, and the programs were registered within three months of publication: 13, 15, 34, 37, 49, 55, 68, 72, 87, 94, 105, 107, 121, 123, 127, and 128.[36]

I find that plaintiff is barred by § 412(1) from recovering statutory damages for the following 74 programs because the Dang's received date is prior to publication and the effective date of registration (*i.e.*, infringement of unpublished work commenced prior to registration) 2, 4, 6, 7, 9, 11, 12, 14, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 27, 31, 33, 35, 38, 40, 41, 42, 44, 46, 51, 52, 53, 56, 57, 59, 61, 63, 66, 69, 70, 71, 73, 75, 76, 78, 79, 82, 83, 84, 86, 90, 91, 92, 93, 95, 96, 97, 98, 99, 104, 108, 109, 111, 113, 114, 115, 116, 118, 119, 120, 122, 124, 125, 126, and 129.[37] I further find that plaintiff is barred by § 412(1) from recovering damages for programs 36, 48, 67 and 101, for which there is no Dang's Received Record, and the earliest Dang's invoice is dated prior to publication.

Similarly, I find that plaintiff is barred by § 412(1) from recovering statutory damages for the following six (6) programs,

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[36] Defendants claim that statutory damages for these programs should be barred solely on the ground that Po Yuen's authorization preceded publication (addressed *supra* pages 27 to 30).

[37] Plaintiff argues that § 412(1) "applies only to unpublished works which are sought to be *protected as such* in a law suit. It does not apply to works which are in the process of *being published and registered* (as a published work) and are registered *within the three month period* which the statute grants the copyright owner to protect his right to statutory damages." Pl. Memorandum at 22 (emphasis in original). Plaintiff argues that unless § 412(1) is construed in this manner, "the copyright owner is deprived of the three month period to register his work if the defendant steals the work (which is easy to do in the case of television programs) while it is in the process of being published." *Id.* at 21. While I am sympathetic to plaintiff's concerns, I find it unnecessary to decide this issue since the court has ample authority to award plaintiff sufficient statutory damages based on the 34 works that are not barred under defendants' construction of § 412.

for which there is no record of receipt by Dang's, and the earliest Dang's invoice is after publication, because there is a reasonable likelihood that these programs were imported prior to publication: 8, 32, 80, 89, 100, and 106. Plaintiff may, however, recover statutory damages for programs 1, 47, and 64 because the programs were published prior to December 1986, when Dang's concededly first began receiving tapes from its Taiwan source, and were registered within three months of publication.

I find that plaintiff is barred by § 412(1) from recovering statutory damages for the following six (6) of the 21 programs for which there is no record of receipt or invoice by Dang's, and which were identified as infringing programs solely by their presence on a UE Program List obtained by plaintiff's investigator in May 1988, because there is a reasonable likelihood that the tapes were received prior to publication: 5, 30, 50, 60, 110, and 117. Plaintiff may, however, recover statutory damages for the remaining 15 programs identified solely by their presence on the UE Program List because the programs were registered prior to December 1986 (3, 26, 28, 39, 43, 45, 58, 65, 77, 85, 88, 102, and 112), or were published prior to December 1986 and registered within three months of publication (29 and 62).

I find that plaintiff is barred by § 412(2) from recovering statutory damages for the following six (6) programs even though infringement commenced or may have commenced after publication, because the effective date of registration is more than three months after publication: 10, 54, 74, 81, 103, and 130.

In sum, § 412 bars recovery of statutory damages for all but 34 of the 130 works at issue.[38]

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[38] The 34 works for which statutory damages will be allowed are: 1, 3, 13, 15, 26, 28, 29, 34, 37, 39, 43, 45, 47, 49, 55, 58, 62, 64, 65, 68, 72, 77, 85, 87, 88, 94, 102, 105, 107, 112, 121, 123, 127, and 128.

Willfulness

Neither the Copyright Act nor its legislative history defines willfullness. However, commentators and courts have defined willfullness under the Act as "with knowledge that the defendant's conduct constitutes copyright infringement." 3 *Nimmer* § 14.04[B][3] at 14-40.3 to 14-40.4 (footnotes omitted); *RSO Records, Inc. v. Peri*, 596 F. Supp. 849, 859 (S.D.N.Y. 1984). This definition "is subject to the corollary that reckless disregard of the copyright holder's rights (rather than actual knowledge of infringement) suffices to warrant award of the enhanced damages." *RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 779 (8th Cir. 1988); *see also Lauratex* 519 F. Supp. at 733 (actual knowledge of copyright not necessary where proof shows that defendant acted with reckless disregard for rights plaintiff had in fabric design). As Professor Nimmer observes, "willfully" cannot simply mean an intent to copy, or "there would be no point in providing specially for the reduction of minimum awards in the case of innocent infringement since any infringement which was nonwillful would necessarily be innocent. This seems to mean, then, that one who has been notified that his conduct constitutes copyright infringement, but who reasonably and in good faith believes the contrary, is not 'willful' for these purposes." 3 *Nimmer* § 14.04[B][3] at 14-40.3 to 14-40.4(1) (footnotes omitted). The burden is on the copyright holder to demonstrate that the infringer acted willfully. *Original Appalachian Artworks v. J.F. Reichert, Inc.*, 658 F. Supp. 458, 463 (E.D. Pa. 1987).

A number of courts have declined to find willfulness where the defendant reasonably relied on advice of counsel or where the defense presented a novel legal issue. *See, e.g., RCA/Ariola*, 845 F.2d at 779 (defendant not reckless in relying on attorney's opinion); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 980 (N.D. Cal. 1986) (no finding of willful infringement as a matter of law where wrongfulness of defendant's action depended on unsettled question of law); *Blendingwell Music, Inc. v. Moor-Law, Inc.*, 612 F. Supp. 474, 486 n.18 (D. Del. 1985) (defendant's allegation that he thought plaintiff's assertion of copyright

violated the antitrust laws raises disputed issues regarding willfulness that can only be resolved at trial); *cf. International Korwin Corp. v. Kowalczyk*, 855 F.2d 375, 379-82 (7th Cir. 1988) (affirming finding of willfulness where defendant's assertion of good faith reliance on statutory exception was not credible).

All of the defendants concede that they had actual knowledge of plaintiff's claim of copyright. They argue, however, that they "acted in reliance of [sic] their position on a novel, complex and substantial question of law, in believing that the IAVC registration certificates were invalid or [not] enforceable." Def. Br. at 12-13. This presumably refers to defendants' legal argument that the Taiwan Relations Act, 22 U.S.C. § 3301 *et seq.*, is unconstitutional to the extent it seeks to confer copyright protection on Taiwanese nationals pursuant to the Treaty of Friendship, Commerce and Naviation. *See* Opinion and Order dated March 8, 1989 at 3, 16-32. In support of their contention that they relied on this argument, defendants point out that Po Yuen has been a lawyer for over 10 years, that his practice includes copyright matters, and that "Yuen's legal opinions and arguments were supported by no less a constitutional authority than Prof. Lawrence Tribe at trial in this issue." Def. Rep. Br. at 17-18.[39]

Notably, however, there has been absolutely no testimony in this case by Po Yuen or any other witness that the defendants in fact relied on their "novel" legal argument prior to the commencement of this lawsuit. As Professor Nimmer states, "one may not avoid a finding of willfulness by the assertion of a reasonable (even if unsuccessful) legal defense if such defense was determined only after the act of infringement occurred." 3 *Nimmer* § 14.04[B][3] 14-40.4 n.28; *see also International Korwin*, 855 F.2d at 382. I also note that at the time defendants

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[39] Defendants' assertion that only minimal statutory damages should be awarded because the plaintiff "has suffered no demonstrable harm," Def. Br. at 15, is meritless for the reasons set forth *supra* at pages 21 to 23.

commenced infringement of plaintiff's copyrights, their "novel" treaty/constitutional defense had already been rejected in two actions brought by IAVC in the Central District of California. *See* Opinion and Order dated March 8, 1989 at 6 n.5.[40]

Moreover, the blatant and cavalier violation of plaintiff's copyrights by Dang's/UE could not present a clearer case of willfulness. Defendants engaged in a massive counterfeiting scheme whereby they imported, distributed and rented over 61,000 exact copies of the Programs notwithstanding that (1) they had read the notices and advertisements placed by IAVC and New York Chinese in the press that it owned the United States copyrights in the Programs, and would prosecute infringers; (2) they had sought to obtain a license from IAVC to market the Programs before engaging in the infringing activity; and (3) by virtue of their own experience in the industry, they were aware of the need to obtain a license and pay a license fee to lawfully distribute and rent Chinese-language videotapes in general and the Programs in particular. Dang's/UE's knowledge that its activity was unlawful is also evidenced by its receipt of the master tapes in boxes marked "gift." In sum, I find that the Dang's/UE defendants did not act in good faith or in reasonable reliance on the advice of counsel or interpretation of unsettled law, but in fact willfully infringed plaintiff's copyrights.

In arriving at a determination of statutory damages, the court may consider "the expenses saved and profits reaped by the defendants in connection with the infringements, the revenues lost by the plaintiffs as a result of the defendants' conduct, and the infringers' state of mind." *Golden Torch Music Corp. v. Pier III Cafe, Inc.*, 684 F. Supp. 772, 774 (D. Conn. 1988); *see also Milene Music, Inc. v. Gotauco*, 551 F. Supp. 1288, 1296 (D.R.I. 1982) (noting that the per-infringement award tends to escalate in direct proportion to the blameworthiness of the

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[40] The credibility of defendants' "good faith" reliance on their legal defenses to liability is further undermined by their willingness to assert a contrary position on the issue of first publication in order to defeat plaintiff's application for statutory damages. *See supra* note 33.

infringing conduct).

In the event plaintiff elects statutory damages, the award against Dang's/UE will be $20,000 for each of the 34 works not barred by § 412, or a total of $680,000, which I find approximates the amount defendants would have been required to pay to plaintiff or IAVC as licensing fees in order to distribute the infringing tapes lawfully. *See* Pl. Memorandum at 11-12. For the reasons set forth *infra* at pages 39 to 40, Po Yuen is jointly and severally liable for the statutory damages assessed against Dang's/UE. The non-UE defendants, as to which plaintiff offered substantially less evidence of willfulness, will be $2,500 for each of the 34 works distributed to them by Dang's: Queens Video $32,500 (13, 15, 34, 37, 68, 72, 87, 94, 105, 107, 121, 123, 127); Chan's Video $7,500 (15, 34, 87); Flushing Star $35,000 (13, 15, 34, 37, 49, 55, 72, 87, 105, 107, 121, 123, 127, 128); Gong Pictures $7,500 (15, 34, 121).[41]

Attorney's Fees and Costs

The Copyright Act provides that the court may, in its discretion, award a reasonable attorney's fee to the prevailing party. 17 U.S.C. § 505. An award of attorney's fees serves to compensate the prevailing party and to punish the losing party. *Roth v. Pritikin*, 787 F.2d 54, 57 (2d Cir. 1986). The Second Circuit has interpreted the statute to distinguish between prevailing plaintiffs and defendants. *Whimsicality, Inc. v. Rubie's Costume Co., Inc.*, 891 F.2d 452, 457 (2d Cir. 1989). Because the Copyright Act is intended to encourage the assertion of colorable claims of copyright infringement, attorney's fees are awarded to prevailing plaintiffs "as a matter of course." *Id.*; *see also Roth*, 787 F.2d at 57; *Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 148 (2d Cir. 1984); *Golden Torch Music*, 684 F. Supp. at

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[41] These numbers were arrived at by comparing the titles of the Programs in Summary Chart A with the titles in Summary Chart B. The numbers in parentheses correspond to the listing of the works in Summary Chart B, which was used *supra* to identify the works for which statutory damages will be allowed under § 412.

774; *National Broadcasting Co., Inc. v. Sonneborn*, 630 F. Supp. 524, 542 (D. Conn. 1985). Prevailing defendants are awarded attorney's fees when the court finds plaintiff's claims are objectively without arguable merit or baseless, frivolous, unreasonable or brought in bad faith. *Whimsicality*, 891 F.2d at 457; *Roth*, 787 F.2d at 57.

In this circuit, an award of attorney's fees may be denied to a prevailing plaintiff where the issues involved are novel or complex, and there was no bad faith on the part of the defendant. *See e.g., Golden Torch Music*, 684 F. Supp. at 774; *Bourne Co. v. MPL Communications, Inc.*, 678 F. Supp. 70, 72 (S.D.N.Y. 1988); *Encyclopedia Britannica Educational Corp. v. Crooks*, 558 F. Supp. 1247, 1251-52 (W.D.N.Y. 1983); *Roy Export Co. Establishment of Vaduz, Liechtenstein, Black, Inc., A.G. v. Columbia Broadcasting System*, 503 F. Supp. 1137, 1155-56 (S.D.N.Y. 1980), *aff'd*, 672 F.2d 1095 (2d Cir.), *cert. denied*, 459 U.S. 826 (1982).

For the reasons stated in my discussion of the issue of willfulness, *supra* pages 33 to 37, I find that these cases do not require denial of attorney's fees in this action. Indeed, I find that an award of attorney's fees is necessary to compensate plaintiff and to deter such flagrant infringements as occurred here. *See, e.g., Lauratex*, 519 F. Supp. at 734.

Plaintiff's counsel is directed to submit an application for costs and attorney's fees, annexing copies of contemporaneous time records,[42] no later than June 28, 1991. Defendants are directed to submit any challenge to the reasonableness of the costs and fees sought no later than ten business days following receipt of plaintiff's application, including, if appropriate, a request for a hearing on plaintiff's application.

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[42] *See New York State Ass'n for Retarded Children, Inc. v. Carey*, 711 F.2d 1136, 1147-48 (2d Cir. 1983).

Personal Liability of Po Yuen

An individual, including a corporate officer, is personally liable for copyright infringement when he has the right and ability to supervise the infringing activity and a financial interest in it, or when he personally participates in the activity. *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); *Engel v. Wild Oats, Inc.*, 644 F. Supp. 1089, 1093 (S.D.N.Y. 1986); *Lauratex Textile Corp. v. Allton Knitting Mills, Inc.*, 517 F. Supp. 900, 904 (S.D.N.Y. 1981); *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 456 F.Supp. 531, 537 (S.D.N.Y. 1977), *aff'd*, 592 F.2d 651 (2d Cir. 1978).

It was stipulated by the parties that Po Yuen was the President and highest ranking officer of both U.E. Enterprises, Inc. and Dang's Video, Inc. and had a one-third ownership interest in those companies at the time of the infringing activity. Stipulation of Facts at ¶¶ 5, 6, 8, 21. It was further stipulated that Mr. Yuen made the decision to import unauthorized copies of the Taiwan TV programs into the United States and instructed Mr. Ng, a vice-president of the two companies, to pay for the master tapes and make copies of them. *Id.* ¶¶ 24, 34, 35. Mr. Yuen was a co-signer of each check used to purchase the master tapes from the supplier in Taiwan. *Id.* ¶ 31. At trial, Mr. Yuen testified that he personally decided to order the videotapes from Taiwan through his employee, Ann Chan. Tr. 146.[43]

Based upon these facts, I find that Mr. Yuen is individually liable, jointly and severally, for copyright infringement by Dang's and UE because he had control over and a financial interest in the infringing activity, and because he personally participated in it.

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[43] Notably, the issue of Po Yuen's individual liability is not addressed in defendants' post-trial brief or reply brief; nor has Yuen's attorney cited any facts or legal authority in support of the assertion (contained in his November 21, 1989 letter to the court) that plaintiff failed to establish Yuen's individual liability.

CONCLUSION

I find that plaintiff is entitled to recover lost profits in the amount of $90,907.20, plus Dang's profits (to the extent they exceed plaintiff's lost profits) in the amount of $101,598.65 ($192,505.85 less $90,907.20). Plaintiff is also entitled to recover the profits of the retail defendants as follows: UE-Retail: $491,283; Flushing Star: $17,663; Queen's Video: $15,282; Chan's Video: $1,039; Gong Pictures: $935. Thus, the total amount of actual damages plaintiff is entitled to recover is $718,707.85. Alternatively, I find that plaintiff is entitled to statutory damages in the amount of $680,000 against Dang's/UE, $35,000 against Flushing Star; $32,500 against Queens Video; $7,500 against Chan's Video and $7,500 against Gong Pictures, totalling $762,500. I further find that plaintiff is entitled to recover its costs and attorney's fees in an amount to be determined following the submission of a fee application. Finally, I find that defendant Po Yuen is individually liable, jointly and severally, for the infringement of plaintiff's copyright by Dang's and UE, and for the damages assessed against Dang's/UE.

SO ORDERED.

APPENDIX D

UNITED STATES COURT OF APPEALS
For the Second Circuit

Docket No. 91-7694

NEW YORK CHINESE TV PROGRAMS, INC.,
Plaintiff-Appellee,

v.

U.E. ENTERPRISES, INC.; FLUSHING STAR, INC.; CHAN'S VIDEO & TRADING, INC.; GONG PICTURES, INC.; DANG'S VIDEO, INC.; PO YUEN,
Defendants-Appellants,
QUEENS VIDEO LTD.; JOHN DOES 1-50,
Defendants.

March 23, 1992

A petition for rehearing containing a suggestion that the action be reheard in banc having been filed herein by Appellants UE ENTERPRISES, INC., ET AL.

Upon consideration by the panel that heard the appeal, it is

Ordered that said petition for rehearing is DENIED.

It is further noted that the suggestion for rehearing in banc has been transmitted to the judges of the court in regular active service and to any other judge that heard the appeal and that no such judge has requested that a vote be taken thereon.

/s/_____
ELAINE B. GOLDSMITH
Clerk